

Progress Announces Second Quarter Results

Montney program on track

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
FINANCIAL HIGHLIGHTS				
Income Statement (\$ thousands, except per share amounts)				
Petroleum and natural gas revenue	115,859	77,031	229,330	179,691
Cash flow ¹	51,240	29,956	99,941	98,723
Per share – diluted	0.24	0.18	0.52	0.63
Cash dividends declared	21,333	17,611	42,634	34,746
Per share	0.10	0.10	0.20	0.20
Balance Sheet (\$ thousands)				
Working capital deficiency (surplus)	18,087	(8,696)	18,087	(8,696)
Bank debt	178,384	429,944	178,384	429,944
Convertible debentures	245,405	126,002	245,405	126,002
Total debt	441,876	547,250	441,876	547,250
Capital expenditures	36,642	12,094	157,415	110,017
Plan of Arrangement ²	-	428	-	663,087
Asset Acquisition ³	(376)	-	389,233	-
Asset Disposition ⁴	(42,854)	-	(42,854)	-
OPERATIONAL HIGHLIGHTS				
Average Daily Production				
Natural gas (mcf/d)	226,898	174,472	203,078	174,503
Crude oil (bbls/d)	2,014	2,121	1,914	2,136
Natural gas liquids (bbls/d)	3,690	2,617	3,559	2,275
Total daily production (boe/d)	43,520	33,817	39,319	33,495
Average Realized Prices				
Natural gas (\$/mcf)	4.03	3.62	4.57	4.57
Crude oil (\$/bbl)	72.97	56.15	74.09	50.32
Natural gas liquids (\$/bbl)	56.40	37.61	54.62	38.19
Wells Drilled, Net	2.7	-	28.4	25.5

(1) Represents cash flow from operating activities before changes in non-cash working capital.

(2) Reverse Takeover of ProEx Energy Ltd. on January 15, 2009.

(3) Foothills asset acquisition on March 31, 2010.

(4) West Central Alberta asset disposition on June 30, 2010.

Progress Energy Resources Corp. (“Progress” or the “Company”) announces results for the second quarter of 2010 (the “Quarter”). Production averaged 43,520 barrels of oil equivalent (“boe”) per day, 29 percent higher than the second quarter of 2009 as a result of strong performance from the Company’s Montney and Nikanassin plays and the acquisition of assets in northeast British Columbia. Net capital investment for the Quarter was a credit of \$6.6 million taking into effect the central Alberta asset disposition and a \$38.2 million capital program which reflects normal seasonal activities due to spring break-up.

“We have entered a new era of growth at Progress and are positioned to deliver strong natural gas production growth into an improving natural gas price environment”, said Mr. Michael Culbert, President and CEO of Progress. “Our extensive British Columbia Foothills Montney position is poised to provide long-term growth in production and reserves while our Alberta Deep Basin assets continue to generate strong results in one of North America’s most economic gas plays.”

Highlights

- Produced 43,520 boe per day for the Quarter, compared to 33,817 boe per day in the second quarter of 2009, resulting in a 13 percent debt-adjusted per share growth;
- Generated \$51.2 million of cash flow in the Quarter or \$0.24 per share, diluted, compared to \$30 million or \$0.18 per share, diluted, in the second quarter of 2009;
- Drilled three wells (2.7 net) with a 100 percent success rate; two were drilled in the Deep Basin and one in the Foothills;
- Successfully commissioned the Town South Montney facility;
- Commenced summer horizontal drilling program at Town South and Caribou;
- Continued de-risking of the Foothills Montney play with horizontal and vertical well completions;
- Added approximately 35,000 undeveloped acres of land through crown land sales in the Quarter; Progress holds over 1.3 million net undeveloped acres;
- Processed and interpreted newly shot 3D seismic at Highway in the Foothills of northeast British Columbia leading to several new Montney drilling opportunities on 100 percent owned and controlled lands;
- Closed the west-central Alberta asset disposition for proceeds of \$42.9 million.

Deep Basin of Northwest Alberta Update

Progress embarked on its summer drilling program in the Deep Basin in June with plans to drill approximately 19 wells in this area prior to year end. Additionally, five wells from the first quarter drilling program will be completed early in the third quarter. The primary focus of the second half drilling program will be on the Company’s Nikanassin opportunities which have continued to contribute to consistent growth in production from Progress’ Deep Basin assets. Recent changes to the Alberta royalty regime will have a positive long term impact on drilling economics in the Deep Basin. In addition to the continuation of the initial five percent royalty level, the depth limit to qualify for the Natural Gas Deep Drilling Program has been reduced to 2,000 meters which will provide a royalty credit of approximately \$200,000 per well for a typical Progress well in the Deep Basin. The Company currently has two drilling rigs operating in the Deep Basin.

“Approximately one-quarter of our 2010 capital program will be invested in the Deep Basin,” said Mr. Culbert. “This will allow us to maintain a consistent pace of drilling activity to take advantage of the drilling credits provided under the Alberta government’s incentive programs which result in an average drilling expenditure credit of approximately \$500,000 per well.” The Alberta Drilling Royalty Credit Incentive Program remains in place until April 2011 and provides a drilling credit of \$200 per meter drilled.

In addition, the Company continues to invest in infrastructure within the Deep Basin. The construction of a new compressor facility, the expansion of a second facility and the installation of interconnecting pipelines are underway which will provide the required capacity to meet growing production levels.

Foothills Montney Program

Progress has built an enviable land position totaling approximately 900,000 net acres in the Montney fairway in northeast British Columbia and northwest Alberta. In the Foothills of northeast British Columbia, Progress holds the Montney rights on approximately 700,000 net acres of land in large contiguous blocks. The Company's vertical delineation drilling program has expanded its known productive fairway across its land base from Altares/Farrell Creek in the south to more than 100 miles north at Caribou.

In the first quarter of 2010, the Company successfully initiated a horizontal pilot program at Town South which included the drilling of four horizontal wells and the construction of a 25 mmcf per day facility. The Town South Project is now moving into a full development phase which includes plans for seven additional horizontal wells in the second half of 2010 and the expansion of the facility to 50 mmcf per day prior to year end. Progress also expects to advance its Kobes Project to a development phase which will include the construction of new facilities.

In total, approximately \$175 million is being invested in the Company's Montney program in 2010. Six horizontal wells were drilled in the Town South and Kobes areas in the first quarter with an additional 12 horizontal wells scheduled to be drilled across the Company's Foothills Montney lands in the second half of 2010. Other Montney focused activities include nine vertical delineation tests and a large 3D seismic program to further define this large resource. In addition to the projects at Town South and Kobes, Progress plans to identify an additional three areas for development prior to year end.

"Completions in the Kobes, Altares/Farrell Creek and Caribou areas are scheduled with plans to drill additional wells in Town and Kobes over the summer," said Mr. Culbert. "The capital program for the second half of the year is designed to continue to de-risk the Montney play on our lands and increase production."

Financial Strength

Cash flow for the Quarter was \$51.2 million or \$0.24 per share, diluted. Net capital investment was a credit of \$6.6 million and the dividend for the Quarter was maintained at \$0.10 per common share. During the Quarter, the Company divested of its west-central Alberta assets for cash proceeds of \$42.9 million. Additionally, Progress' first series of convertible debentures matured and were paid out in cash utilizing the Company's existing credit facility.

As at June 30, 2010, the Company had approximately \$470 million available under its \$650 million revolving credit facility. Debt-to-total capitalization for Progress is currently 14 percent.

Progress' average gas price in the Quarter was \$4.03 per thousand cubic feet ("mcf"). The Company's high heat content gas stream achieves a premium to AECO prices. Royalty rates averaged 14.6 percent in the Quarter reflecting lower natural gas prices. With the scheduled plant maintenance, operating costs averaged \$6.45 per boe in the Quarter.

Progress has hedges on approximately 15 percent of its natural gas production for the remainder of 2010 at an average AECO price of C\$5.32 per GJ or C\$5.85 per mcf based on the Company's high heat content gas stream.

Outlook

We plan to invest \$350 million in 2010 and exit the year at between 45,000 and 46,500 boe per day which is approximately 40 percent higher than our 2009 exit rate. Approximately one-half of our 2010 growth comes from the acquisition of low risk, low decline assets in the Foothills region which we closed at the end of the first quarter. The primary driver of our future growth is our Montney program in the Foothills. The Town South Project has moved into its full development phase and is expected to reach 50 mmcf per day in the second quarter of 2011. Additionally, by year end, we anticipate advancing our Kobes Project to its first phase of development and identifying another three project areas that will progress from the vertical test phase into the horizontal pilot

phase and ultimately into development. Each of these five projects would target production reaching 50 mmcf per day. In addition to the substantial potential of our Montney assets, our Deep Basin program and our semi-conventional opportunities in the Foothills will provide a solid production base and generate strong economic returns.

We have established an enviable asset base in two of the premier natural gas plays in North America. Over the past nine years we have amassed large contiguous land blocks in both the Foothills and Deep Basin regions and both regions are capable of generating strong returns on invested capital in the current natural gas price environment. As we have built our asset position, we have concentrated on maintaining high working interests and operatorship which allow us to control the cost and the pace of development while the maintenance of a healthy balance sheet has been important to ensure that we have the flexibility to take advantage of opportunities which add long-term value for shareholders.

We believe the natural gas price environment will improve to reflect the marginal cost of adding production and reserves on a full cycle basis. Although near term prices will be impacted by the relative levels of natural gas in storage and weather events, we believe the recovery in industrial demand and the steady increase in gas-fired electrical generation will balance the market and ultimately place upward pressure on prices. The alignment of the interests of the Company's shareholders and its management is created through direct ownership in the common shares of Progress. Management, directors and employees in aggregate hold approximately seven percent of the outstanding common stock of the Company.

Consolidated Financial Statements and MD&A

Second Quarter 2010 Consolidated Financial Statements and Notes to the Consolidated Financial Statements and Management's Discussion and Analysis for Progress Energy Resources Corp. have been filed on SEDAR (www.sedar.com) under Progress Energy Resources Corp. and can also be accessed on the Company's website at www.progressenergy.com.

Progress is a Calgary based, mid-size energy company primarily focused on natural gas exploration, development and production in northwest Alberta and northeast British Columbia. Common shares of Progress are listed on the Toronto Stock Exchange under the symbol PRQ.

For further information, contact Greg Kist, Vice President, Investor Relations and Marketing, Progress Energy Resources Corp., at 403-539-1809 (gkist@progressenergy.com).

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis ("MD&A") of financial results is dated July 27, 2010 and is to be read in conjunction with the accompanying unaudited consolidated interim financial statements and related notes for the period ended June 30, 2010 of Progress Energy Resources Corp. ("Progress" or the "Company") and the audited consolidated financial statements and related notes and MD&A for the year ended December 31, 2009. The financial data presented has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The reporting and the measurement currency is the Canadian dollar.

Non-GAAP Measurements Management uses the industry benchmark operating netback to analyze financial and operating performance. This benchmark as presented does not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures for other entities. Operating netback is used by research analysts to compare operating performance and the Company's ability to maintain current operations and meet the forecasted capital program. Operating netback is the net result of the Company's revenue, net of realized gains and losses on financial instruments, and royalty, operating and transportation expenses as found in the accompanying interim financial statements.

Forward-Looking Statements Certain information regarding Progress set forth in this document, including Management's assessment of the Company's future plans and operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward looking statements. Such statements represent Progress' internal projections, estimates or beliefs concerning, among other things, an outlook on the estimated amounts and timing of capital investment, anticipated future debt, revenues or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. These statements are only predictions and actual events or results may differ materially. Although Progress believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause Progress' actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, Progress.

In particular, forward-looking statements included in this MD&A include, but are not limited to, statements with respect to the size of, and future net revenues from, crude oil and natural gas reserves; future prospects; the focus of, timing and amount of capital expenditures; expected investment in the Company's Montney program in 2010; timing of review of credit facilities; process and timing of implementation of IFRS (as defined herein); impact of IFRS on the Company's financial position and results of operations; projected exit rate for 2010; expected production from the Town South Project; identification and development of future projects and the expected results therefrom; expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development; terms of hedging arrangements; access to debt and equity markets; projections of market prices and costs and the related sensitivity of dividends; the performance characteristics of the Company's crude oil and natural gas properties; crude oil and natural gas production levels, including anticipated production for 2010; Progress' future operating and financial results; capital investment programs; supply and demand for crude oil and natural gas; future royalty rates and natural gas deep drilling credits; drilling, development and completion plans and the results therefrom; amount of operating, transportation and general and administrative expenses; terms of the Company's stock based compensation arrangements; treatment under governmental regulatory regimes and tax laws; impact of market conditions on natural gas prices; estimated tax pool balances; and payment of future dividends. In addition, statements relating to "reserves" or "resources" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the Company's control, including the impact of general economic conditions; volatility in market prices for crude oil and natural gas and other commodities; fluctuations in interest and exchange rates; industry conditions; volatility of commodity prices; imprecision of reserve estimates; geology of oil and gas deposits; encountering

unexpected formations or pressures; premature decline of reservoirs and the invasion of water into producing formations; liabilities inherent in crude oil and natural gas operations; operational risks in exploring for, developing and producing crude oil and natural gas; environmental risks; incorrect assessments of the value of acquisitions and exploration and development programs; uncertainty of finding reserves, developing and marketing those reserves; competition from other producers; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; the lack of availability of qualified personnel or management; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; insufficient storage or transportation capacity; stock market volatility; governmental regulation of the oil and gas industry, including environmental regulation; actions taken by governmental authorities, including increases in taxes and changes in government regulations and incentive programs; failure to obtain industry partner and other third party consents and approvals, as and when required; fluctuations in the costs of borrowing; the use of derivative financial instruments; ability to access sufficient capital from internal and external sources and the other risks considered under "Risk Factors" in our annual information form for the year ended December 31, 2009 which is available on www.sedar.com.

With respect to forward-looking statements contained in this MD&A, including, but not limited to, forward-looking statements in respect of the Company's expected operating, transportation and general and administrative expenses, Progress has made assumptions regarding, among other things: current commodity prices and royalty regimes; exchange and interest rates; availability of skilled labour; North American sulphur prices; the price of oil and natural gas; the impact of increasing competition; conditions in general economic and financial markets; availability of drilling and related equipment; effects of regulation by governmental agencies; royalty rates; current technology; anticipated cash flow; anticipated production rates; anticipated reserves; the timing and amount of capital expenditures and the results therefrom; marketability of oil and natural gas; effects of regulation by governmental agencies; costs of borrowing; transportation and infrastructure availability and development; onstream, operating and other costs; and expectations regarding production levels.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide shareholders with a more complete perspective on Progress' future operations and such information may not be appropriate for other purposes. Progress' actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that the Company will derive there from. Readers are cautioned that the foregoing lists of factors are not exhaustive. These forward-looking statements are made as of the date of this MD&A and the Company disclaim any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

PLAN OF ARRANGEMENT – CREATION OF PROGRESS ENERGY RESOURCES CORP.

On January 15, 2009 Progress Energy Trust (the "Trust") and ProEx Energy Ltd. ("ProEx") completed the plan of arrangement (the "Arrangement") whereby ProEx acquired all of the issued and outstanding units of the Trust and the exchangeable shares of the Trust's subsidiary, Progress Energy Ltd. and changed its name to Progress Energy Resources Corp. The Trust unitholders received 0.8125 of a ProEx share for each trust unit held and the holders of exchangeable shares received 0.8125 of a ProEx share for each unit they were entitled to by multiplying the exchangeable shares held by the exchange ratio on January 15, 2009 of 1.62092.

Upon completion of the Arrangement, the Trust was liquidated and dissolved and the Company received all of the assets and assumed all of the liabilities of the Trust, including the 6.75 percent and 6.25 percent convertible unsecured subordinated debentures of the Trust. The Company is now a mid-sized natural gas focused exploration, development and production company.

As a result of the Arrangement, the former owners of the Trust owned approximately 61 percent of the Company and the former owners of ProEx owned approximately 39 percent. In accordance with Canadian GAAP, the Arrangement was considered a reverse takeover, whereby the Trust was deemed to be the acquirer of ProEx (the “ProEx Acquisition” or “Reverse Takeover”). Consequently, the consolidated financial statements for 2009 reflect the financial position, results of operations and cash flows of the Company as if the Company had always carried on the business formerly carried on by the Trust. The six months ended June 30, 2009 reflect the results of operations and cash flows of the Trust and its subsidiaries for the period January 1 to January 14, 2009 and the results of operations and cash flows of the Company and its subsidiaries for the period January 15 to June 30, 2009. Due to the change from a trust to a corporation, certain information included in the MD&A for prior periods may not be directly comparable.

The total consideration of the Reverse Takeover was approximately \$663.5 million based on the notional issuance of 73,479,481 Trust units at \$9.26 per Trust unit using the weighted average trading price of the Trust for a period before and after the announcement date of November 17, 2008, adjusted for the effect of normal issue costs, and estimated transaction costs and other costs of \$10.3 million. The ProEx Acquisition added approximately 11,500 boe per day of production and approximately 525,000 net acres of undeveloped land.

Description of Business

Progress is a Calgary based, natural gas focused Company. The principal undertaking of the Company is to explore for, develop and hold interests in petroleum and natural gas properties. Primary operating regions include the Deep Basin of northwest Alberta and the northeast British Columbia Foothills. The common shares of the Company trade on the Toronto Stock Exchange (“TSX”) under the symbol PRQ. The 6.25 percent and 5.25 percent convertible unsecured subordinated debentures (the “Debentures”) trade on the TSX under the symbols PRQ.DB.A and PRQ.DB.B, respectively.

Foothills Acquisition

On March 31, 2010, the Company acquired certain northeast British Columbia Foothills assets for \$389.2 million, including \$2.1 million in transaction costs (the “Foothills Acquisition”). The Foothills Acquisition assets are immediately adjacent to the Company’s producing assets in the Town, Bubbles and Blueberry/Beg areas and represent a strategic fit with the Company’s existing northeast British Columbia Foothills properties. The assets include production of approximately 7,300 boe per day, 91 percent natural gas, and approximately 188,000 net acres of undeveloped land.

To finance the Foothills Acquisition and a portion of the Company’s 2010 capital investment program the Company issued 47,630,000 common shares at \$12.60 per share for total gross proceeds of \$600.1 million (\$588.9 million net of issue costs of \$11.2 million). The share issuance was comprised of a \$350 million subscription receipt private placement with the Canada Pension Plan Investment Board (“CPPIB”) and a concurrent \$250 million subscription receipt bought-deal financing through a syndicate of underwriters. Each subscription receipt represented the right to receive one common share of Progress, without the payment of any additional consideration, on the closing of the Foothills Acquisition which occurred on March 31, 2010.

The private placement with CPPIB contains certain conditions in regards to their investment and ongoing relationship with Progress including:

- Lockup provision - requires CPPIB to not sell any shares for an 18 month period following the closing date and CPPIB shall elect to have the shares participate in the dividend reinvestment program.
- Governance - so long as CPPIB owns greater than 12.5 percent of the outstanding common shares they shall have the right to nominate one individual to be a director of Progress. If CPPIB owns greater than 10 percent of the outstanding common shares, Progress shall discuss with CPPIB any proposed transaction for which the Company will require equity financing before implementing such transaction.
- Registration rights – if CPPIB holds 10 percent or more of the outstanding common shares, they shall have the right to require Progress at CPPIB's expense, to prepare, file and obtain receipt for a final prospectus offering for the sale of any portion of the common shares held by CPPIB.
- After 18 months from the closing of the private placement, CPPIB shall have the right to include common shares owned by CPPIB in a prospectus offering to the extent of 15 percent of such offering.
- Right to participate in future offerings – so long as CPPIB owns greater than 10 percent of the outstanding common shares, CPPIB shall have the pre-emptive right to participate in future offerings up to CPPIB's pro-rata ownership interest immediately prior to the offering.

OPERATING SUMMARY

In accordance with Canadian industry practice, production volumes, reserve volumes and revenues are reported on a Company interest basis (working interest plus royalty interest), before deduction of Crown and other royalties, unless otherwise indicated. The Company's results of operations are dependent on production volumes of natural gas, crude oil and natural gas liquids and the prices received for this production. Prices for these commodities have shown significant volatility during recent years and are determined by supply and demand factors, including weather, general economic conditions and changes in the Canadian/United States ("US") currency exchange rate.

In this MD&A, production and reserves information may be presented on a "barrel of oil equivalent" or "boe" basis with six thousand cubic feet ("mcf") of natural gas being equivalent to one barrel ("bbl") of crude oil or natural gas liquids. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Production

	Three Months Ended June 30		Six Months Ended June 30		
	2010	2009	2010	2009	Change
Average Daily Production					
Natural gas (<i>mcf/d</i>)	226,898	174,472	203,078	174,503	16%
Crude oil (<i>bbls/d</i>)	2,014	2,121	1,914	2,136	(10%)
Natural gas liquids (<i>bbls/d</i>)	3,690	2,617	3,559	2,275	56%
Total daily production (<i>boe/d</i>)	43,520	33,817	39,319	33,495	17%
Sulphur sales (<i>tons/d</i>)	76	92	98	81	21%

Progress' production for the three months ended June 30, 2010 (the "Quarter") averaged 43,520 boe per day consisting of 226,898 mcf per day of natural gas, 2,014 bbls per day of crude oil and 3,690 bbls per day of natural

gas liquids. Production during the Quarter was 29 percent higher than the same period in 2009 of 33,817 boe per day as a result of the Foothills Acquisition and successful drilling results. The Company's production portfolio for the Quarter was weighted 87 percent to natural gas, five percent to crude oil and eight percent to natural gas liquids.

Natural gas production increased 30 percent to 226,898 mcf per day for the Quarter compared to 174,472 mcf per day for the same period in 2009. The increase was the result of the Foothills Acquisition and successful drilling. Crude oil and natural gas liquids ("NGL") production for the Quarter of 5,704 bbls per day was 20 percent higher than the same period in 2009 of 4,738 bbls per day due to increased NGL production. In 2009 the Company completed a "cross-over line" allowing more of its Deep Basin production to be processed through a "deep cut" facility in the Wapiti area resulting in greater NGL recoveries. The production from new wells in the Deep Basin are tied in to this facility when possible.

Year-to-date 2010 production was 39,319 boe per day consisting of 203,078 mcf per day of natural gas, 1,914 bbls per day of crude oil and 3,559 bbls per day of natural gas liquids. This production was 17 percent higher than the same period in 2009 of 33,495 boe per day due to the Foothills Acquisition on March 31, 2010 as well as the successful drilling results. The Company's production portfolio for the six months ended June 30, 2010 was weighted 86 percent to natural gas, five percent to crude oil and nine percent to natural gas liquids.

On June 30, 2010, the Company disposed of its Central Alberta properties for approximately \$42.9 million.

Production by Region

	Three Months Ended June 30		Six Months Ended June 30		Change
	2010	2009	2010	2009	
Average Daily Production (boe/d)					
Foothills	23,127	16,254	18,884	15,895	19%
Fort St. John Plains	1,837	2,133	1,921	2,156	(11%)
Other	594	850	623	885	(30%)
Total British Columbia	25,558	19,237	21,428	18,936	13%
Deep Basin	16,195	12,452	16,038	12,391	29%
Central Alberta	1,238	1,588	1,298	1,616	(20%)
Other	529	540	555	552	1%
Total Alberta	17,962	14,580	17,891	14,559	23%
Total daily production	43,520	33,817	39,319	33,495	17%

Excludes sulphur production

Pricing

Natural Gas Markets

Progress' realized natural gas price for the Quarter was \$4.03 per mcf (\$3.51 per gigajoule ("gj")) compared to \$3.62 per mcf (\$3.18 per gj) for the same period in 2009. The AECO daily index averaged \$3.69 per gj in the Quarter (2009 - \$3.27 per gj), the AECO monthly index averaged of \$3.66 per gj (2009 - \$3.47 per gj) and the Station #2 daily index averaged \$3.47 per gj (2009 - \$3.06 per gj). Progress markets its natural gas at a mix of daily and monthly pricing. The higher realization reflects the higher heat content of Progress' natural gas stream.

For the six months ended June 30, 2010 Progress' realized natural gas price was \$4.57 per mcf (\$4.00 per gj) compared to \$4.57 per mcf (\$4.01 per gj) for the same period in 2009. During the six months ended June 30, 2010 the AECO daily index averaged of \$4.19 per gj (2009 - \$3.97), the AECO monthly index averaged of \$4.37 per gj (2009 - \$4.40 per gj) and the Station #2 daily index averaged \$4.00 per gj (2009 - \$3.81 per gj).

North American natural gas prices weakened during the Quarter as the effects of moderating weather, continued high storage levels and strong US production limited the upside benefit received from positive economic and market fundamentals.

The Quarter was typical for a shoulder season as natural gas demand fluctuated with weather impacts and storage buyers began the refilling process. Prices fell from the first quarter as the negative impact of growing US production volumes and increasing rig count was partially offset with the positive news of low aquifer levels required for hydro-electric generation and growing coal to natural gas fuel switching. Natural gas prices began to recover late in the Quarter when hot weather in the eastern and southern US boosted demand for gas fired power generation and forecasts for an active hurricane season were released.

Although the current natural gas market continues to be driven by bearish sentiment, environmental concerns with gas well fracturing processes and the impact of a deepwater Gulf of Mexico drilling moratorium may prove to be bullish as future supply is negatively impacted.

Oil Markets

Progress' realized prices for its liquids streams for the Quarter were \$72.97 per bbl (2009 - \$56.15 per bbl) for crude oil and \$56.40 per bbl (2009 - \$37.61 per bbl) for natural gas liquids. For the six months ended June 30, 2010 Progress realized \$74.09 per bbl (2009 - \$50.32 per bbl) for crude oil and \$54.62 per bbl (2009 - \$38.19 per bbl) for natural gas liquids.

Prices began the Quarter at their highest level since the later part of 2008 largely resulting from ongoing positive economic news from the US and China. Market fundamentals did however cause oil prices to remain volatile through much of the Quarter with negative demand side news, such as the Icelandic volcano impacting air travel, bringing oil prices down followed by positive economic news in the US and the moratorium on deep water drilling providing positive support to prices near the end of the Quarter.

Globally, oil demand is slowly recovering from the lows of the past two years. The steady return of demand in North America is supported with consistent economic growth in developing countries such as China and India. This return of demand will likely affect light sweet crude streams like WTI while heavier grades may take longer to regain their relative demand and value. Progress crude oil production is significantly made up of light crude and does not include any heavy oil.

Commodity Prices

	Three Months Ended June 30		Six Months Ended June 30		Change
	2010	2009	2010	2009	
Average Benchmark Prices					
Natural gas – AECO (daily) (\$/gj)	3.69	3.27	4.19	3.97	6%
Natural gas – AECO (monthly) (\$/gj)	3.66	3.47	4.37	4.40	(1%)
Natural gas – Station #2 (daily) (\$/gj)	3.47	3.06	4.00	3.81	5%
Crude oil – WTI (US\$/bbl)	78.03	56.62	78.37	51.35	53%
Crude oil – Edmonton par price (Cdn\$/bbl)	75.21	65.93	77.66	57.81	34%
Exchange rate (Cdn\$/US\$)	1.2076	1.1672	1.0342	1.2062	(14%)
Average Realized Prices					
Natural gas (\$/mcf)	4.03	3.62	4.57	4.57	-
Crude oil (\$/bbl)	72.97	56.15	74.09	50.32	47%
Natural gas liquids (\$/bbl)	56.40	37.61	54.62	38.19	43%
Sulphur – net (\$/ton)	39.98	(35.13)	22.18	16.09	38%

Price Risk Management

The Company, from time to time, may enter into financial contracts for the purpose of protecting its cash flow from the volatility of natural gas prices and Canadian to US foreign exchange rates. For the Quarter, the Company's risk management program had a net realized gain of \$3.9 million (2009 - nil). For the six months ended June 30, 2010 the Company's risk management program had a net realized gain of \$3.0 million (2009 - \$17.5 million gain).

At June 30, 2010 the fair value of the financial contracts was an asset of \$9.5 million (2009 - \$0.3 million asset).

At June 30, 2010 the Company had the following financial contracts outstanding:

Contracts	Volume	Pricing Point	Strike Price \$/gj	Premium \$/gj	Term
Fixed Price Swap	10,000 gj/d	AECO	5.750	n/a	Mar 1/10 to Dec 31/10
Fixed Price Swap	10,000 gj/d	AECO	5.800	n/a	Mar 1/10 to Dec 31/10
Fixed Price Swap	25,000 gj/d	AECO	4.150	n/a	Jul 1/10 to Jul 31/10
Fixed Price Swap	10,000 gj/d	AECO	4.275	n/a	Aug 1/10 to Aug 31/10
Fixed Price Swap	15,000 gj/d	AECO	4.265	n/a	Aug 1/10 to Aug 31/10
Bought Put Option	25,000 gj/d	AECO	6.430	(1.08)	Nov 1/10 to Mar 31/11
Sold Call Option	10,000 gj/d	AECO	7.575	n/a	Jan 1/11 to Dec 31/11
Sold Call Option	10,000 gj/d	AECO	7.500	n/a	Jan 1/11 to Dec 31/11

The Company has hedged natural gas prices on 20,000 gjs per day for the remainder of 2010 at an average of \$5.78 per gj through fixed price swaps and on an additional 25,000 gjs per day for November and December 2010 through a put option that extends to March 31, 2011 at \$5.35 per gj, net of the premium of \$1.08 per gj. The Company has also entered into fixed price swaps on 25,000 gjs per day for July and August of 2010 at average prices of \$4.21 per gj. To manage the cost of the Company's risk management program, the Company sold call options on 20,000 gjs per day which caps the natural gas price at an average price of \$7.54 per gj for 2011.

The change in the fair value of the financial contracts for the three and six months ended June 30, 2010 was a loss of \$7.9 million and a gain \$6.6 million, respectively (2009 - \$0.3 million gain and \$14.3 million loss). The loss for the Quarter was due to increasing future natural gas prices since March 31, 2010, however the gain for the six months ended June 30, 2010 is due to overall lower future natural gas prices than at December 31, 2009.

Revenue

For the Quarter, petroleum and natural gas revenue increased 50 percent to \$115.9 million from \$77.0 million for the same period in 2009 due to both higher production and commodity prices. Production revenue for the Quarter consisted of \$83.3 million from natural gas sales, \$13.4 million from crude oil sales, \$18.9 million from the sale of natural gas liquids and \$0.3 million from the sale of sulphur.

For the six months ended June 30, 2010, revenues increased 28 percent to \$229.3 million from \$179.7 million for the same period in 2009 as a result of both higher production and higher crude oil and natural gas liquids prices.

	Three Months Ended June 30		Six Months Ended June 30		
(\$ thousands)	2010	2009	2010	2009	Change
Natural gas sales	83,269	57,543	168,115	144,286	17%
Crude oil sales	13,374	10,836	25,659	19,453	32%
Natural gas liquids sales	18,940	8,946	35,185	15,717	124%
Sulphur sales (net)	276	(294)	371	235	58%
Petroleum and natural gas revenue	115,859	77,031	229,330	179,691	28%

(\$ thousands)	Natural Gas	Crude Oil & NGLs	Sulphur	Total
Three months ended June 30, 2009 petroleum and natural gas revenue	57,543	19,782	(294)	77,031
Price variance	8,435	8,499	519	17,453
Production variance	17,291	4,033	51	21,375
Three months ended June 30, 2010 petroleum and natural gas revenue	83,269	32,314	276	115,859

(\$ thousands)	Natural Gas	Crude Oil & NGLs	Sulphur	Total
Six months ended June 30, 2009 petroleum and natural gas revenue	144,286	35,170	235	179,691
Price variance	202	17,206	87	17,495
Production variance	23,627	8,468	49	32,144
Six months ended June 30, 2010 petroleum and natural gas revenue	168,115	60,844	371	229,330

Royalties

For the Quarter, royalties increased 128 percent to \$16.9 million from \$7.4 million for the same period in 2009 due to higher revenues. Royalty expense consists of royalties paid to provincial governments, freehold landowners and overriding royalty owners. The Company's average royalty rate for the Quarter was 14.6 percent, which was higher than 2009 of 9.6 percent. The increase in the royalty rate was due to higher commodity prices in the Quarter as compared to the same period in 2009, as well as 2009 included a recovery of \$2.2 million relating to an adjustment to the gas cost allowance for prior periods.

For the six months ended June 30, 2010 royalties increased 53 percent to \$36.8 million compared to \$24.1 million for the same period in 2009. The Company's average royalty rate was 16.0 percent compared to 13.4 percent in 2009 due to higher commodity prices and a recovery in 2009 relating to the gas cost allowance for prior periods.

Management anticipates based on current commodity prices and royalty regimes, the average royalty rate for 2010 will be approximately 15 percent of petroleum and natural gas revenue.

Alberta Royalties

The Alberta government's New Royalty Framework ("new framework") announced October 25, 2007 took effect on January 1, 2009. The new framework is based on a new simplified royalty formula for natural gas that operates on a sliding scale determined by commodity prices, well productivity and drilling depth. A revamped natural gas deep drilling program was also implemented for wells deeper than 2,500 metres.

In 2008 the Alberta government implemented a transitional royalty program in which, companies drilling certain new wells on or after November 19, 2008, have a one-time option of selecting the transitional royalty program or the new framework. All wells drilled between 2009 and 2013 that adopt the transitional royalty program will be required to shift to the new framework on January 1, 2014. As a result, all of the Company's Alberta wells, drilled before November 19, 2008 are now under the new framework. For all Alberta wells drilled after November 19, 2008, the Company has completed the required elections for those wells it has determined would economically benefit under the transitional royalty program.

On March 3, 2009 the Alberta government announced incentives for the energy sector in response to the current global economic slowdown. The incentives include a drilling royalty credit for new conventional oil and natural gas wells of up to \$200 per meter drilled for wells spud on or after April 1, 2009 to March 31, 2011 and a maximum five percent royalty rate for the first year of production from new oil or gas wells brought on production after April 1, 2009, up to a maximum of 500,000 mcf of natural gas or 50,000 bbls of crude oil production. On June 25, 2009 the Alberta government extended these incentives to March 31, 2011. The drilling royalty credit may be reduced depending on the amount of Alberta production on crown lands and how much crown royalties are paid. Progress has determined that it qualifies for the full credit. As at June 30, 2010 approximately \$12.4 million in Alberta drilling credits have been earned and recognized as a reduction to capital spending.

On March 11, 2010 the Alberta government announced further changes to its royalty regime which will take effect beginning January 1, 2011, as a result of its "Competitiveness Review". The key changes are: 1) the current incentive program of five percent for the first year of production on new natural gas and conventional oil wells will become permanent with the current time and volume limits; 2) the maximum royalty rate for conventional oil will be reduced at higher price levels from 50 percent to 40 percent; 3) the maximum royalty rate for conventional and unconventional natural gas will be reduced at higher price levels from 50 percent to 36 percent; and 4) the transitional royalty framework will continue until its original announced expiration on December 31, 2013, however, effective January 1, 2011, no new wells will be allowed to select the transitional royalty rates.

On May 27, 2010 the Alberta government released the new royalty curves associated with the changes announced on March 11, 2010, which determine royalty rates at certain commodity price levels, and revised the natural gas deep drilling credit to wells deeper than 2,000 metres, compared to 2,500 metres previously. The deep drilling credit is \$625 per metre for metres below 2,000 metres to 3,500 metres. This should result in a credit of approximately \$0.2 million on a typical Progress Deep Basin well which will be used to reduce future royalties.

British Columbia Royalties

On August 6, 2009 the government of British Columbia ("BC") announced an oil and gas stimulus package to enhance BC's competitive business climate and encourage continued oil and gas development and exploration. The package is comprised of two parts; a two percent royalty relief program on natural gas and a change to the deep royalty credit program. The two percent royalty relief program is a one year, two percent royalty rate for all natural gas wells drilled in a 10 month window, spud on or after September 1, 2009 to June 30, 2010 based on the well spud date. The two percent royalty will apply to the first 12 months of production and production must commence before December 31, 2010.

The change to the deep royalty credit program includes an increase of 15 percent to the existing royalty deductions for natural gas deep drilling and the inclusion of horizontal wells drilled between 1,900 and 2,300 metres. The change applies to wells spud after August 31, 2009. To date Progress has earned an average of \$2.1 million per well of deep royalty credits on each of its Montney horizontal wells. As at June 30, 2010 approximately \$8.8 million in deep royalty credits have been earned and are expected to be recognized in the future as a reduction to royalty expense.

The two percent royalty relief program and the deep royalty credit program will co-exist but a company will only receive the benefits of one program at a time. The deep royalty credit will apply first. If it is exhausted before 12 months of production, the two percent royalty will be in effect for the remainder of the 12 months. If the deep royalty credit is not exhausted before 12 months, the two percent royalty program will not apply.

Progress has considered the benefits of each of Alberta's and BC's programs in its current drilling plans and will consider the benefits of each in developing the future drilling plans of the Company.

Operating Expenses

Operating expenses during the Quarter increased 17 percent to \$25.5 million from \$21.9 million for the same period in 2009. The increase was due to higher production as a result of the Foothills Acquisition and successful drilling. On a boe basis, operating expenses for the Quarter decreased nine percent to \$6.45 from \$7.09 in the same period in 2009. Operating expense per boe is expected to trend downwards as the Company optimizes the assets acquired in the Foothills Acquisition.

For the six months ended June 30, 2010 operating expenses increased seven percent to \$44.8 million compared to \$41.9 million for the same period in 2009 as a result of higher production. On a boe basis, year-to-date operating expenses decreased nine percent to \$6.30 compared to \$6.91 for the same period in 2009.

Management anticipates operating expenses for 2010 to average \$6.25 to \$6.50 per boe.

Transportation Expenses

Transportation expenses for the Quarter increased 43 percent to \$12.8 million compared to \$9.0 million for the same period in 2009 and for the six months ended June 30, 2010 transportation expenses increased 27 percent to \$22.4 million compared to \$17.6 million for the same period in 2009 as a result of the Foothills Acquisition. On a boe basis, transportation expenses for the Quarter of \$3.24 were eleven percent higher than the same period in 2009 of \$2.91 and for the six months ended June 30, 2010 transportation expenses of \$3.15 were nine percent higher than the same period in 2009 of \$2.90. The increase was due to a higher proportion of the Company's production coming from BC where the Company pays an all-in charge for regulated gathering, processing and transmission fees on much of its production thereby avoiding facility construction. This all-in charge is included in transportation expenses.

Management anticipates transportation expenses for 2010 to average \$3.20 to \$3.30 per boe.

Operating Netbacks

Although many wells produce both crude oil and natural gas, a well is categorized as a natural gas well or an oil well based upon the higher proportion of natural gas or crude oil production. The following table summarizes the operating netbacks for natural gas and oil properties for the three and six months ended June 30, 2010 compared to the same periods in 2009:

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Natural Gas Properties (\$/mcf)				
Sales price	4.59	3.90	5.07	4.74
Realized gain on financial instruments	0.17	-	0.07	0.52
Royalties	(0.63)	(0.32)	(0.78)	(0.60)
Operating expenses	(1.01)	(1.08)	(0.99)	(1.05)
Transportation expenses	(0.55)	(0.50)	(0.54)	(0.50)
Operating netback – natural gas properties	2.57	2.00	2.83	3.11
Oil Properties (\$/bbl)				
Sales Price	58.69	47.03	61.27	44.64
Royalties	(13.01)	(8.15)	(13.45)	(8.70)
Operating expenses	(13.00)	(15.19)	(11.97)	(14.86)
Transportation expenses	(1.89)	(1.84)	(1.86)	(1.91)
Operating netback – oil properties	30.79	21.85	33.99	19.17
All Properties (\$/boe)				
Sales Price ¹	29.25	25.03	32.22	29.64
Realized gain on financial instruments	0.97	-	0.42	2.88
Royalties	(4.27)	(2.41)	(5.17)	(3.97)
Operating expenses	(6.45)	(7.09)	(6.30)	(6.91)
Transportation expenses	(3.24)	(2.91)	(3.15)	(2.90)
Operating netback – all properties	16.26	12.62	18.02	18.74

¹ Includes sulphur net revenue (loss) with no associated production as no conversion exists for tons to boe.

General and Administrative Expenses

For the Quarter, general and administrative expenses net of overhead recoveries, (“G&A”) increased 12 percent to \$4.1 million compared to \$3.6 million for the same period in 2009. For the six months ended June 30, 2010 G&A expenses increased seven percent to \$7.6 million compared to \$7.1 million for the same period in 2009. The increase was due to the growth of the Company primarily as a result of the Foothills Acquisition. On a boe basis G&A for the Quarter was \$1.02 compared to \$1.17 for the same period in 2009 while year-to-date 2010 was \$1.07 compared to \$1.18 for the same period in 2009.

The Company capitalized approximately \$0.5 million of G&A during the Quarter (2009 - \$0.2 million) and \$0.9 million for the six months ended June 30, 2010 (2009 - \$1.0 million). These costs represent compensation related to geological and geophysical staff.

Management anticipates G&A expenses to average approximately \$1.00 per boe in 2010.

Stock Based Compensation Expenses

In conjunction with the Arrangement, the Company has established a stock based compensation plan (“Plan”) comprised of a Stock Option Plan, as well as a Share Unit Plan which includes both Restricted Unit Awards and

Performance Unit Awards. Unless otherwise approved by the shareholders, the Company may grant up to a maximum of 1,700,000 common shares pursuant to the Share Unit Plan. The Restricted Unit Awards are whole share awards that entitle the holder to that number of shares at the end of the vesting period. Performance Unit Awards are similar to the Restricted Unit Awards however, a performance factor is applied to the grant on the vesting date. Both the Restricted Unit Awards and Performance Unit Awards vest at the end of a three year period and include accumulated dividends paid over the three year period, however for new employees, their initial grant will vest 20 percent on the first anniversary date, 30 percent on the second anniversary and 50 percent on the third anniversary. Under the Stock Option Plan, unless otherwise approved by the shareholders, the Company may grant up to a maximum of 10,000,000 stock options. The stock options granted under the Stock Option Plan vest one third in each of the second, third and fourth year anniversary dates from the date of grant. The options expire five years from the date of grant.

Grants that were outstanding from the Trust and ProEx, which include performance units and units granted under the Long Term Incentive Component ("LTI") as well as stock options of ProEx, will continue until their original vesting dates.

Performance Units of the Trust

The performance units granted by the Trust vest at the end of a three year performance period at which time they will be converted to common shares, or the cash equivalent, and include the accumulated distributions of the Trust and accumulated dividends of the Company over the three year period. For new employees, their initial grant will vest 20 percent on the first anniversary date, 30 percent on the second anniversary and 50 percent on the third anniversary. The actual number of common shares paid is dependent upon a performance factor that is determined based on the Company's performance relative to its peers and ranges from 0.5 to 1.5 times the initial grant, except for performance units granted to the Trust's executives effective July 2, 2007 and 2008 which can range from 0 to 3 times. Payment may be in the form of cash or common shares, at the Company's option. Management anticipates, at the end of the performance period, accumulated distributions and dividends will be paid in cash and common shares will be paid from treasury. Actual performance factors will not be determined until the end of the three year performance periods.

Long Term Incentive Component of the Trust

Awards granted under the LTI component of the Trust's compensation plan vest over three years with 40 percent vesting on the second anniversary of the date of grant and 60 percent vesting on the third anniversary of the date of grant. An additional 15 percent grant will be paid if the holder holds the common shares they receive on the second anniversary date for one additional year. During the six months ended June 30, 2010 92,592 common shares were issued to settle LTI amounts that vested, including the 15 percent on grants that qualified. As at June 30, 2010 23,240 common shares remain outstanding under the LTI component excluding the potential 15 percent grant. Including the 15 percent grant for employees that have held their shares from the first vesting period, approximately 26,726 common shares remain outstanding as at June 30, 2010. The average value of the grants were measured at approximately \$16.93 per share resulting in a total compensation cost of the LTI component of approximately \$3.0 million of which \$2.8 million will be recognized through stock based compensation expense and \$0.2 million will be capitalized over the vesting period.

Long Term Incentive Component of ProEx

ProEx participated in the Trust's LTI by granting common shares to non-executive Trust employees in their capacity as service providers. To facilitate these awards, the Trust had purchased ProEx common shares and was reimbursed by ProEx for the cost incurred. The ProEx awards granted under the LTI vest on the second anniversary date of the date of grant. As these shares have been purchased and will not be issued from treasury, the stock based compensation expense is a cash expense and the shares granted do not impact the diluted number of shares outstanding. During the six months ended June 30, 2010 10,879 common shares were released to employees on the vesting of their ProEx LTI and as at June 30, 2010, 11,171 common shares have not yet vested.

For the Quarter, stock based compensation expenses increased 20 percent to \$3.4 million (\$0.85 per boe) compared to \$2.8 million (\$0.91 per boe) for the same period in 2009. The difference was due to an increase in

the estimated performance factor from 1.0 to 1.5 on the performance units vesting in 2010 and 2011 due to the Company's strong operating performance. For the six months ended June 30, 2010 stock based compensation expenses of \$6.1 million (\$0.86 per boe) were consistent with the same period in 2009 of \$6.2 million (\$1.02 per boe), as the increase in the performance factors recognized in the Quarter were consistent with the increase in performance factors recognized in 2009.

As at June 30, 2010, there were 5,988,533 stock options outstanding. This includes 4,715,000 stock options that were granted under the Stock Option Plan and 1,273,533 stock options granted by ProEx prior to the Arrangement that will continue until their original expiry date or until they are exercised or forfeited.

The following tables summarize the activity for the six months ended June 30, 2010 and 2009 for the stock options, Share Unit Plan, performance units of the Trust and the units under the LTI component of the Trust.

Stock Options	Number Of Options	Six Months Ended June 30, 2010 Weighted Average Exercise Price
Balance, beginning of period	5,872,533	11.93
Granted	191,000	12.74
Exercised	(25,000)	10.50
Forfeited	(50,000)	11.40
Balance, end of period	5,988,533	11.97

Restricted Units	Six Months Ended June 30	
	2010	2009
Balance, beginning of period	93,259	-
Granted	-	5,159
Forfeited	(650)	-
Balance, end of period	92,609	5,159

Vesting Date		
2010	950	-
2011	5,036	-
2012	86,623	5,159
Total	92,609	5,159

Performance Units	Six Months Ended June 30	
	2010	2009
Balance, beginning of period	259,950	-
Forfeited	(2,800)	-
Balance, end of period	257,150	-

Vesting Date		
2010	2,790	-
2011	4,185	-
2012	250,175	-
Total	257,150	-

Performance Units of the Trust ¹	Six Months Ended June 30	
	2010	2009
Balance, beginning of period	717,718	1,087,247
Performance factor adjustment ²	-	144,543
Settled ²	-	(450,180)
Forfeited	(5,118)	(59,840)
Balance, end of period	712,600	721,770

Vesting Date		
2010 ³	324,388	327,880
2011 ⁴	388,212	393,890
Total	712,600	721,770

(1) All amounts have been adjusted to reflect the ratio of 0.8125 of a common share for each trust unit as specified in the Arrangement.

(2) As a result of the Arrangement, the performance units granted to non-executive employees, granted in 2006, vested and were settled at a performance factor of 1.5 times resulting in the issuance of 202,495 common shares. The executive portion was settled at a performance factor of 1.5 times resulting in the issuance of 231,136 common shares. The non-executive employees, who receive their initial performance unit grants at the phased in vesting, resulted in the issuance of 16,549 common shares.

(3) Subsequent to June 30, 2010, the performance units granted in 2007 were settled at a performance factor of 1.5 times, resulting in the issuance of 485,590 common shares.

(4) Using the current anticipated performance factor of 1.5 times, 199,631 additional common shares will be issued on the vesting of the performance units in 2011.

Units under LTI Component¹

	Six Months Ended June 30	
	2010	2009
Balance, beginning of period	100,956	161,284
Bonus grant ²	16,683	-
Settled	(92,562)	(49,928)
Forfeited	(1,837)	(5,599)
Balance, end of period	23,240	105,757

Vesting Date

2009	-	3,681
2010	10,280	87,947
2011	12,960	14,129
Total ²	23,240	105,757

(1) All amounts have been adjusted to reflect the ratio of 0.8125 of a common share for each trust unit as specified in the Arrangement.

(2) An additional 15 percent grant, resulting in the issuance of 16,683 common shares, was paid to LTI holders in the Quarter to those who held the shares they received on the second anniversary date for one additional year. For the remaining units under the LTI this could result in an additional 3,486 common shares being issued by the Company.

Interest and Financing Expenses

Interest and financing expenses during the Quarter increased 61 percent to \$9.9 million compared to \$6.2 million for the same period in 2009 while year-to-date interest and financing expenses increased 70 percent to \$21.6 million compared to \$12.7 million for the same period in 2009. The increase was due to higher average total debt levels, including the Debentures, as well as the higher accretion charge and amortization of issue costs of the 5.25 percent convertible unsecured debentures as compared to the same period in 2009. The effective interest rate on bank debt for the Quarter of 6.7 percent, disclosed below, is higher than the 3.3 percent incurred in the same period in 2009 due to higher unutilized fees paid regarding the larger unutilized portion of the credit facility as a result of the closing of the Foothills Acquisition and related financing on March 31, 2010.

(\$ thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Interest on bank debt	3,035	3,433	7,898	7,211
Interest on Debentures	4,727	2,105	9,395	4,187
Amortization of Debenture issue costs	693	279	1,389	558
Accretion on debt portion of Debentures ¹	1,477	371	2,930	736
Total interest and financing expense	9,932	6,188	21,612	12,692
Interest and financing expense (\$/boe)	2.51	2.01	3.04	2.09
Average bank debt outstanding	181,190	424,786	253,825	418,765
Average bank debt interest rate (%) ²	6.7	3.3	6.2	3.5
Average bank prime lending rate (%)	2.3	2.3	2.3	2.5

(1) Under Canadian GAAP, the fair value of the conversion feature of the Debentures is classified as equity and the remainder is classified as debt. Over the term of the Debentures, the debt portion will accrete up to the principal balance at maturity with the charge going to interest and financing expenses.

(2) The average bank debt interest rate for the three and six months ended June 30, 2010, after excluding fees paid in regards to the unutilized portion of the credit facility of \$1.0 million and \$1.8 million, respectively, was 4.5 percent and 4.8 percent, respectively.

Depletion, Depreciation and Accretion

For the Quarter, depletion and depreciation of property, plant and equipment and the accretion of the asset retirement obligations (“DD&A”) increased 22 percent to \$70.5 million compared to \$58.0 million for the same period in 2009. For the six months ended June 30, 2010 DD&A increased 11 percent to \$126.6 million compared to \$114.0 million for the same period in 2009. The increase to DD&A expense was due to the increased size of the Company as a result of the Foothills Acquisition. On a boe basis, DD&A for the Quarter was \$17.80 compared to \$18.83 for the same period in 2009 and for the six months ended June 30, 2010 was \$17.79 compared to \$18.80 for the same period in 2009 as a result of the Foothills Acquisition.

Taxes

The provision for future income taxes for the Quarter was a recovery of \$6.5 million compared to recovery of \$6.7 million for the same period in 2009, given the consistent pre-tax loss. For the six months ended June 30, 2010 the provision for future income taxes was a recovery of 4.6 million compared to a recovery of \$8.1 million for the same period in 2009 due to a lower pre-tax loss primarily as a result of higher revenues.

Progress’ estimated tax pool balances as at June 30, 2010 total approximately \$2.1 billion.

Net Loss and Comprehensive Loss

The net loss and comprehensive loss for the Quarter increased 11 percent to \$23.3 million compared to net loss and comprehensive loss of \$20.9 million for the same period in 2009. The increase was due to higher DD&A expense and an unrealized loss on financial instruments exceeding the impact of higher revenues. The basic and diluted net loss for the Quarter was \$0.11 per share and for the same period in 2009 the basic and diluted net loss was \$0.13 per share.

The net loss and comprehensive loss for the six months ended June 30, 2010 decreased 12 percent to \$22.5 million compared to a net loss and comprehensive loss of \$25.6 million for the same period in 2009. The decrease was due to higher revenues as well as a \$6.6 million unrealized gain on financial instruments compared to a \$14.3 million unrealized loss for the same period in 2009. The basic and diluted net loss for the year-to-date 2010 was \$0.12 per share and for the same period in 2009 the basic and diluted net loss was \$0.16 per share.

Dividends

Since the Arrangement on January 15, 2009, Progress has declared quarterly cash dividends of \$0.10 per common share, including for the Quarter which is payable on July 15, 2010. The total amount of dividends for the Quarter is approximately \$21.3 million (2009 - \$17.6 million). Progress has a dividend reinvestment plan (“DRIP”) whereby common shareholders can elect to receive their dividend in shares. The number of shares issued is based on 95 percent of the average market price being the weighted average trading prices of the shares for the five consecutive trading days before the dividend payment date. On July 15, 2010 the Company issued 453,427 common shares in payment of \$5.5 million of dividends for shareholders that elected to participate in the DRIP. Progress intends to pay quarterly dividends, however these dividends are not guaranteed.

Quarterly Financial Summary ¹

	Three Months Ended							
	Jun 30 2010	Mar 31 2010	Dec 31 2009	Sept 30 2009	June 30 2009	Mar 31 2009	Dec 31 2008	Sept 30 2008
<i>(\$ thousands, except per share amounts)</i>								
Petroleum and natural gas revenue	115,859	113,471	86,145	64,421	77,031	102,660	98,920	143,026
Net earnings (loss)	(23,288)	764	(20,075)	(26,877)	(20,915)	(4,694)	7,864	52,461
Per share basic ²	(0.11)	0.00	(0.12)	(0.16)	(0.13)	(0.03)	0.10	0.65
Per share diluted ²	(0.11)	0.00	(0.12)	(0.16)	(0.13)	(0.03)	0.10	0.60

- (1) Petroleum and natural gas revenue and net earnings decreased in the fourth quarter of 2008 due to lower commodity prices which continued throughout 2009. On January 15, 2009, ProEx was acquired through the Reverse Takeover. The higher production in 2009 as a result of the ProEx Acquisition was offset by the impact of lower commodity prices. A net loss was realized in each quarter in 2009 due to lower revenues from lower commodity prices, as well as higher expenses as a result of the ProEx Acquisition. Petroleum and natural gas revenue for the first quarter of 2010 increased over the fourth quarter of 2009 due to higher production and higher crude oil and NGL prices. Higher revenues as well as a \$14.6 million unrealized gain on financial instruments, resulted in higher net earnings in the first quarter of 2010 as compared to previous quarters in 2009. Petroleum and natural gas revenue increased slightly from the first quarter of 2010 as higher production as a result of the Foothills Acquisition was largely offset by lower commodity prices. The net loss for the Quarter was due to higher DD&A expense due to the Foothills Acquisition, and an unrealized loss on financial instruments of \$7.9 million.
- (2) The earnings per share amounts for 2008 have been adjusted to reflect the Reverse Takeover as if it had occurred at the beginning of each period.

Capital Expenditures

During the Quarter, the Company invested \$36.6 million in capital expenditures compared to \$12.1 million in the same period in 2009. For the six months ended June 30, 2010 the Company invested \$157.4 million in capital expenditures compared to \$110.0 million for the same period in 2009.

	Three Months Ended June 30		Six Months Ended June 30	
(\$ thousands)	2010	2009	2010	2009
Land acquisitions and retention	11,374	2,219	18,830	17,454
Geological and geophysical	1,422	162	7,253	1,772
Drilling and completions	15,094	5,510	105,054	76,781
Equipping and facilities	10,255	4,137	31,681	13,690
Corporate assets	91	4	224	115
Exploration and development capital	38,236	12,032	163,042	109,812
Net property acquisitions (dispositions)	(1,594)	62	(5,627)	205
Total capital expenditures	36,642	12,094	157,415	110,017
Foothills Acquisition	(376)	-	389,233	-
Central Alberta Disposition	(42,854)	-	(42,854)	-
Arrangement (cash portion)	-	429	-	5,167
Total investing activities (before changes in non-cash working capital)	(6,588)	12,523	503,794	115,184

During the Quarter, the Company drilled 3 gross wells (2.7 net) with a 100 percent success rate. The drilling activity included one gross wells (one net) in the Foothills region and two gross (1.7 net) in the Deep Basin region. For the six months ended June 30, 2010, the Company drilled 32 gross (28.4 net) with a 100 percent success rate including 17 gross wells (14.2 net) in the Foothills region, 14 gross (13.2 net) in the Deep Basin region and one gross well (1.0 net) in the Ojay area in northeast BC. The Town South Project is now moving into a full development phase which includes plans for seven additional horizontal wells in the second half of 2010 and the expansion of the facility to 50,000 mcf per day. Additionally by year end, Progress anticipates advancing its Kobes Project in the Foothills to its first phase of development and identifying an additional three project areas that will progress from the vertical test phase into the horizontal pilot phase and ultimately into development. The Company plans to invest approximately \$175 million in 2010 in the Montney program.

Progress commenced its summer drilling program in the Deep Basin in mid-June and plans to drill approximately 19 wells in the region prior to the end of 2010. Additionally, five wells from the first quarter of 2010 will be completed early in the third quarter. The primary focus of the Deep Basin drilling program for the remainder of the year will be on the Company's Nikanassin opportunities. The drilling royalty credit offered by the Alberta government of \$200 per meter drilled, has resulted in an average credit of \$0.5 million per well for wells drilled in the Deep Basin. The Alberta Drilling Royalty Incentive Program remains in place until April 2011. As at June 30, 2010, Progress has earned approximately \$12.4 million in drilling credits under the Alberta program which have been recognized as a reduction to capital spending.

The drilling credits now offered by the Alberta and BC governments (see “Royalties” above) help support a consistent pace of drilling activity in this weak natural gas price environment.

In addition to the capital expenditures described above, on March 31, 2010, the Company acquired certain northeast British Columbia Foothills assets for \$389.2 million, including \$2.1 million in transaction costs. The Foothills Acquisition assets are immediately adjacent to the Company’s producing assets in the Town, Bubbles and Blueberry/Beg areas and represent a strategic fit with the Company’s existing northeast British Columbia Foothills properties. The assets include production of approximately 7,300 boe per day, 91 percent natural gas, and approximately 188,000 net acres of undeveloped land.

On June 30, 2010, the Company disposed of its Central Alberta properties for approximately, \$42.9 million.

On January 15, 2009, the Company completed the Arrangement which resulted in the combination of ProEx and the Trust. Each Trust unitholder received 0.8125 of a common share for each trust unit held. The transaction has been accounted for as a reverse takeover whereby the Trust has been deemed the acquirer of ProEx. The total consideration of the Reverse Takeover was approximately \$663.5 million based on the notional issuance of 73,479,481 Trust units at \$9.26 per Trust unit using the weighted average trading price of the Trust for a period before and after the announcement date of November 17, 2008, adjusted for the effect of normal issue costs, and estimated transaction costs and other costs of \$10.3 million. The resulting charge to property, plant and equipment on the allocation of the purchase was \$967.1 million. The common shares issued upon completion of the Arrangement represent the non-cash value of this transaction and are not included in the table above. Cash transaction costs incurred in 2009 of \$5.6 million has been disclosed separately on the statement of cash flows.

Goodwill

The goodwill balance of \$414.7 million was primarily the result of the acquisition of Cequel Energy Inc. in 2004. In accordance with Canadian GAAP, goodwill is not amortized but is subject to an impairment test. Progress conducted a goodwill impairment test at its fiscal year end. Goodwill may be tested for impairment between annual tests in certain situations.

For these purposes, the fair value of goodwill is determined as the fair value of the Company as a whole less the fair value of the Company’s identifiable assets and liabilities. A write-down of the carrying value of goodwill may be required if the fair value of the identifiable assets, less the fair value of liabilities, exceed the value of the Company, being primarily the value of its oil and natural gas reserves. There was no impairment of goodwill as at June 30, 2010.

Liquidity and Capital Resources

	June 30	December 31
<i>(\$ thousands, except per share amounts)</i>	2010	2009
Working capital deficiency	18,087	9,269
Bank debt	178,384	277,878
Convertible debentures ¹	245,405	296,753
Total debt	441,876	583,900
Shares outstanding (thousands)	213,330	165,284
Market price per share, end of period	12.37	14.15
Market value of shares	2,638,892	2,338,769

(1) The 6.75 percent debentures matured on June 30, 2010 at which time they were repaid.

At June 30, 2010 the Company had \$178.4 million outstanding on its credit facility of \$650.0 million, as well as \$245.4 million for the debt portion of the Debentures and a working capital deficit of \$18.1 million, resulting in \$441.9 million of total debt.

The Company has extendible revolving term credit facilities in the amount of \$650 million from a syndicate of lenders. The borrowing base under the facilities, which were renewed on March 31, 2010 is currently \$650

million and is subject to periodic re-determination by the lenders. The facilities are available on a revolving basis until March 30, 2011, subject to extension at the lenders' discretion for successive 364 day periods. If an extension is not provided, the facilities will be available on a non-revolving basis for the following year and all amounts outstanding thereunder must be repaid in full at the end of such year. The facilities bear interest at a rate based on bankers acceptance rates (or LIBOR, for US dollar borrowings) plus a specified margin, which margin varies based on the Company's debt to cash flow ratio. The facilities contain customary restrictions on the incurrence of additional indebtedness, the disposition of assets and the granting of security. The facilities also contain customary events of default, including if a change of control has occurred in respect of the Company, which could occur: (a) if a person or persons acting jointly or in concert, acquired more than 30 percent of the outstanding voting securities of the Company; or (b) if 50 percent or more of the consolidated reserves of the Company and its subsidiaries were sold or otherwise disposed of to another person. The Company is restricted from making distributions (including the declaration of dividends) if it is in default under the facilities (or a default would reasonably be expected to occur as a result of such distribution) or if its outstanding borrowings exceed its borrowing threshold. As with previous credit facilities, the amount of the facilities is subject to a borrowing base review performed on a periodic basis by the lenders, based primarily on reserves and using commodity prices estimated by the lenders, as well as other factors. A decrease in the borrowing base could result in a reduction to the credit facilities which may require a repayment to the lenders over the following 12 month period. The last borrowing base review was performed in March 2010 using the Company's reserves at January 1, 2010 and prices determined by the lenders. As a result, there was no change to the current credit facilities. The facilities are secured by a \$1.5 billion fixed and floating charge debenture on the assets of the Company. The next semi-annual borrowing base review will be in September 2010.

Bank debt of \$178.4 million as at June 30, 2010 was \$99.5 million lower than December 31, 2009 bank debt of \$277.9 million due to the issuance of 47,630,000 common shares at \$12.60 per share for total gross proceeds of \$600.1 million (\$588.9 million net of issue costs of \$11.2 million) to finance the Foothills Acquisition and a portion of the 2010 capital investment program. The share issuance was comprised of a \$350 million subscription receipt private placement with CPPIB and a concurrent \$250 million subscription receipt bought-deal financing through a syndicate of underwriters. Each subscription receipt represented the right to receive one common share of Progress, without the payment of any additional consideration, on the closing of the Foothills Acquisition which occurred on March 31, 2010. Bank debt increased on June 30, 2010 due to the repayment of the 6.75 percent debentures for \$55.7 million, however this was partially offset by proceeds received on the sale of the Company's Central Alberta properties of approximately \$42.9 million.

The working capital deficiency increased from \$9.3 million as at December 31, 2009 to \$18.1 million as at June 30, 2010 due to higher accounts payable and accrued liabilities as a result of higher capital expenditures in the Quarter and higher royalties.

On February 18, 2009 the Company completed a bought deal financing whereby the Company issued 12,950,000 common shares at a price of \$10.85 per share for aggregate gross proceeds of \$140.5 million (\$133.8 million, net of issue costs of approximately \$6.7 million).

On October 23, 2009, Progress issued \$200.0 million principal amount of 5.25 percent convertible unsecured subordinated debentures (the "5.25 percent debentures"). The net proceeds received of approximately \$191.6 million was used to reduce outstanding bank debt. Interest on the 5.25 percent debentures is payable in equal instalments semi-annually in arrears on April 30 and October 31 in each year commencing April 30, 2010. The 5.25 percent debentures will mature on October 31, 2014. Each debenture may be converted into common shares at the option of the holder at a conversion price of \$18.00 per common share. After October 31, 2012, the Company may redeem the 5.25 percent debentures in whole or in part provided the common shares weighted average trading price during a specified period prior to redemption is at least 125 percent of the conversion price. The Company may satisfy the payment of principal or interest in common shares under certain circumstances.

As at June 30, 2010 the Company also had outstanding \$75.0 million principal amount of the 6.25 percent debentures. The 6.25 percent debentures pay interest semi-annually and are convertible at the option of the holder at any time into fully paid common shares at a conversion price of \$24.00 per common share. The 6.25

percent debentures mature September 30, 2011 at which time they are due and payable. Progress may elect to satisfy the interest and principal obligations by the issuance of common shares.

The Debentures have been classified as debt net of the fair value of the conversion feature which has been classified as part of shareholders' equity and net of issue costs. At June 30, 2010 the debt portion was \$245.4 million, net of unamortized issue costs. Issue costs are amortized over the term of the Debentures and the debt portion will accrete up to the principal balance at maturity. The accretion, amortization of issue costs and the interest paid are expensed with interest and financing expense on the consolidated statements of earnings.

Outstanding as at July 26, 2010 were the following:

	Shares Outstanding Or Issuable
Common shares	214,280,371
Convertible debentures	14,236,111
Stock options	5,976,865
Restricted Unit Awards	177,624
Performance Unit Awards	529,010
Performance units from the Trust	379,988
LTI component from the Trust	21,718

Current economic conditions

Progress continued to have access to both debt and equity markets in late 2009 and early 2010 in spite of the current economic conditions and financial market volatility. As noted above, in October 2009, the Company issued \$200.0 million principal amount of 5.25 percent debentures and on March 31, 2010, raised \$600.1 million gross (\$588.9 net of issue costs) on the issuance of 47,630,000 common shares at \$12.60 per share. As a result, at June 30, 2010 the Company has \$471.6 million available on its current credit facilities.

The Company's investing activities for the six months ended June 30, 2010 consisted of expenditures on its capital program, the Foothills Acquisition and the disposition of its Central Alberta properties. Management anticipates that the Company will continue to have adequate liquidity to fund budgeted capital investments through a combination of cash flow, equity and debt. Cash flow used to finance these commitments may reduce the amount of dividends paid to shareholders as dividends are not guaranteed.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

On January 1, 2011 International Financial Reporting Standards ("IFRS") will become the generally accepted accounting principles in Canada. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by Progress for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010. The project to convert to IFRS is being managed by an in-house team of accounting professionals who have engaged in IFRS educational programs and continue to develop the Company's adoption to IFRS. The Company's auditors will be involved throughout the process to ensure the Company's policies are in accordance with these new standards.

In July 2009 an amendment to IFRS 1 First Time Adoption of International Reporting Standards was issued that applies to oil and gas assets. The amendment allows an entity that used full cost accounting under its previous GAAP to elect, at its time of adoption, to measure exploration and evaluation assets at the amount determined under the entity's previous GAAP and to measure oil and gas assets in the development and production phases by allocating the amount determined under the entity's previous GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of that date. Progress currently anticipates that it will use this exemption. IFRS 1 also provides a number of other optional exemptions and mandatory exceptions in certain areas to the general requirement for full retrospective application. Management is analyzing the various

accounting policy choices available and will implement those determined to be the most appropriate for the Company which other than the full cost accounting exemption noted above are:

Business Combinations – IFRS 1 would allow Progress to use the IFRS rules for business combinations on a prospective basis rather than re-stating all business combinations.

Share-based payments – IFRS 1 allows Progress an exemption on IFRS 2, “Share-Based Payments” to equity instruments which vested before Progress’ transition date to IFRS.

The transition from Canadian GAAP to IFRS is significant and may materially affect our reported financial position and results of operations. At this time, Progress has identified key differences that will impact the financial statements and the current status of those items:

- *Exploration and Evaluation (“E&E”) expenditures* – On transition to IFRS Progress will re-classify all E&E expenditures that are currently included in the PP&E balance on the consolidated balance sheet. This will consist of the book value of undeveloped land that relates to exploration properties. E&E assets will not be depleted and must be assessed for impairment when indicators of impairment exist.
- *Property, plant and equipment* – This includes oil and gas assets in the development and production phases. The Company has allocated the amount recognized under current Canadian GAAP as at January 1, 2010 using both reserve volumes and reserve values to the assets at an area level. Progress is evaluating the outcome of each calculation.
- *Impairment of PP&E assets* – Under IFRS, impairment tests of PP&E must be performed on specific portions of PP&E (“cash generating unit”) as opposed to the entire PP&E balance which is currently required under current Canadian GAAP through the full cost ceiling test. Impairment calculations will be performed at the cash generating unit level using either total proved or proved plus probable reserves. Progress has determined its cash generating units for the purpose of impairment testing and anticipates using proved plus probable reserve values for impairment tests.
- *Depletion expense* – On transition to IFRS Progress has the option to base the depletion calculation using either proved reserves or proved plus probable reserves. Progress has not concluded at this time which method it will use.
- *Share based payments* – The Company has determined the major differences from current Canadian GAAP that would impact the Company such as treating graded vesting awards as multiple separate awards with different lives and estimating forfeiture rates in advance as opposed to recognizing the impact when the forfeiture occurs. The Company is currently performing the revised share-based payment expense calculations under IFRS.
- *Provisions*- The major difference between the current Canadian standard and IFRS appears to be the discount rate used to measure the asset retirement obligation (“ARO”). Under the current Canadian standard a credit adjusted risk free rate is used, whereby the IFRS indicates the use of a risk free rate. A lower discount rate will increase the ARO liability and on adoption, that increase will be charged to retained earnings or deficit.
- Due to the recent withdrawal of the exposure draft on IAS 12 Income Taxes in November 2009 and the issuance of the exposure draft on IAS 37 Provisions, Contingent Liabilities and Contingent Assets in January 2010, Management is still determining the impact of these revised standards on its IFRS transition.

In addition to the accounting policy differences, Progress’ transition to IFRS will impact the internal controls over financial reporting, the disclosure controls and procedures and information technology (“IT”) systems as follows:

Internal controls over financial reporting – As the review and analysis of Progress’ accounting policies is completed, an assessment will be made to determine changes required to internal controls over financial reporting. This will be an ongoing process in 2010 to ensure that changes in accounting policies include the appropriate additional controls and procedures for future IFRS reporting requirements.

Disclosure controls and procedures – Throughout the transition process, Progress will be assessing stakeholder's information requirements and will ensure that adequate and timely information is provided while ensuring the Company maintains its due process regarding information that is disclosed.

IT Systems – Progress has assessed the readiness of its accounting software and has and continues to assess other system requirements that may be needed in order to perform ongoing calculations and analysis under IFRS. These changes are not considered to be significant.

Management is continuing to finalize its accounting policies and choices and as such is unable to quantify the impact on the financial statements of adopting IFRS. In addition, due to anticipated changes to IFRS and International Accounting Standards prior to Progress' adoption of IFRS, certain items may be subject to change based on new facts and circumstances that arise after the date of this MD&A.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's Management, as appropriate, to allow timely decisions regarding required disclosures. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the interim filings that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the issuer, is made known to them by others within the Company. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met. In accordance with National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings" the certification of interim filings for the interim period ended June 30, 2010 requires Progress to disclose any changes in internal controls over financial reporting that occurred during the interim period. Progress confirms there were no changes made to the internal controls over financial reporting during the Quarter or six months ended June 30, 2010 that has materially affected or is reasonably likely to materially affect Progress' internal controls over financial reporting.

Additional Information

Additional information regarding the Company and its business and operations, including the annual information form ("AIF") is available on the Company's profile at www.sedar.com. Copies of the AIF can also be obtained by contacting the Company at Progress Energy Resources Corp. 1200, 205 – 5th Avenue S.W., Calgary, Alberta, Canada T2P 2V7 or by e-mail at ir@progressenergy.com. This information is also accessible on the Company's web site at www.progressenergy.com.

OUTLOOK

We plan to invest \$350 million in 2010 and exit the year at between 45,000 and 46,500 boe per day which is approximately 40 percent higher than our 2009 exit rate. Approximately one-half of our 2010 growth comes from the acquisition of low risk, low decline assets in the Foothills region which we closed at the end of the first quarter. The primary driver of our future growth is our Montney program in the Foothills. The Town South Project has moved into its full development phase and is expected to reach 50 mmcf per day in the second quarter of 2011. Additionally, by year end, we anticipate advancing our Kobes Project to its first phase of development and identifying another three project areas that will progress from the vertical test phase into the horizontal pilot phase and ultimately into development. Each of these five projects would target reaching 50 mmcf per day. In addition to the substantial potential of our Montney assets, our Deep Basin program and our semi-conventional opportunities in the Foothills will provide a solid production base and generate very strong economic returns.

We have established an enviable asset base in two of the premier natural gas plays in North America. Over the past nine years we have amassed large contiguous land blocks in both the Foothills and Deep Basin regions. Both regions are capable of generating strong returns on invested capital in the current natural gas price environment. As we have built our asset position, we have concentrated on maintaining high working interests and operatorship which allow us to control the cost and the pace of development while the maintenance of a healthy balance sheet has been important to ensure that we have the flexibility to take advantage of opportunities which add long-term value for shareholders.

We believe the natural gas price environment will improve to reflect the marginal cost of adding production and reserves on a full cycle basis. Although near term prices will be impacted by the relative levels of natural gas in storage and weather events, we believe the recovery in industrial demand and the steady increase in gas-fired electrical generation will balance the market and ultimately place upward pressure on prices. The alignment of the interests of the Company's shareholders and its management is created through direct ownership in the common shares of Progress. Management, directors and employees in aggregate hold approximately seven percent of the outstanding common stock of the Company.

On behalf of the Board of Directors,

(Signed) "Michael R. Culbert"

Michael R. Culbert
President & CEO
July 27, 2010

PROGRESS ENERGY RESOURCES CORP.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

<i>(\$ thousands)</i>	June 30 2010	December 31 2009
ASSETS		
Current		
Accounts receivable	44,025	41,086
Prepaid expenses and deposits	11,593	10,435
Fair value of financial instruments <i>(Note 10)</i>	9,486	2,848
Investments <i>(Note 10)</i>	9,543	9,601
	74,647	63,970
Property, plant and equipment <i>(Note 4)</i>	2,362,612	1,979,765
Goodwill	414,655	414,655
	2,851,914	2,458,390
LIABILITIES		
Current		
Accounts payable and accrued liabilities	61,915	53,863
Cash dividends payable	21,333	16,528
Convertible debentures <i>(Note 6)</i>	-	55,180
Future income taxes	2,352	712
	85,600	126,283
Bank debt <i>(Note 5)</i>	178,384	277,878
Convertible debentures <i>(Note 6)</i>	245,405	241,573
Asset retirement obligations <i>(Note 7)</i>	41,159	39,423
Future income taxes	48,821	57,935
	599,369	743,092
SHAREHOLDERS' EQUITY		
Shareholders' capital <i>(Note 8)</i>	2,542,271	1,944,738
Convertible debentures <i>(Note 6)</i>	28,257	31,010
Contributed surplus <i>(Note 8)</i>	24,660	17,035
Deficit	(342,643)	(277,485)
	2,252,545	1,715,298
	2,851,914	2,458,390

See accompanying notes to the consolidated financial statements

PROGRESS ENERGY RESOURCES CORP.
CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS
AND DEFICIT
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
<i>(\$ thousands, except per share amounts)</i>	2010	2009	2010	2009
REVENUE				
Petroleum and natural gas	115,859	77,031	229,330	179,691
Royalties	(16,918)	(7,408)	(36,806)	(24,064)
	98,941	69,623	192,524	155,627
Realized gain on financial instruments <i>(Note 10)</i>	3,855	-	2,983	17,459
Unrealized gain (loss) on financial instruments <i>(Note 10)</i>	(7,926)	305	6,638	(14,278)
Unrealized gain (loss) on investments <i>(Note 10)</i>	1,519	3,802	(58)	1,732
	96,389	73,730	202,087	160,540
EXPENSES				
Operating	25,542	21,819	44,849	41,890
Transportation	12,837	8,951	22,385	17,596
General and administrative	4,056	3,608	7,599	7,134
Stock based compensation <i>(Note 8)</i>	3,374	2,806	6,132	6,189
Interest and financing	9,932	6,188	21,612	12,692
Depletion, depreciation and accretion <i>(Note 4)</i>	70,482	57,955	126,618	113,981
	126,223	101,327	229,195	199,482
Loss before taxes	(29,834)	(27,597)	(27,108)	(38,942)
TAXES				
Current income taxes	-	-	-	(5,240)
Future income tax reduction	(6,546)	(6,682)	(4,584)	(8,094)
	(6,546)	(6,682)	(4,584)	(13,334)
NET LOSS AND COMPREHENSIVE LOSS	(23,288)	(20,915)	(22,524)	(25,608)
Deficit, beginning of period	(298,022)	(158,965)	(277,485)	(137,137)
Dividends	(21,333)	(17,611)	(42,634)	(34,746)
Deficit, end of period	(342,643)	(197,491)	(342,643)	(197,491)
NET LOSS PER SHARE <i>(Note 8)</i>				
Basic	(0.11)	(\$0.13)	(0.12)	(\$0.16)
Diluted	(0.11)	(\$0.13)	(0.12)	(\$0.16)

See accompanying notes to the consolidated financial statements

PROGRESS ENERGY RESOURCES CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
(\$ thousands)	2010	2009	2010	2009
OPERATING ACTIVITIES				
Net loss	(23,288)	(20,915)	(22,524)	(25,608)
Unrealized loss (gain) on financial instruments (Note 10)	7,926	(305)	(6,638)	14,278
Unrealized loss (gain) on investments (Note 10)	(1,519)	(3,802)	58	(1,732)
Depletion, depreciation and accretion	70,482	57,955	126,618	113,981
Convertible debentures accretion (Note 6)	1,477	371	2,930	736
Amortization of convertible debenture issue costs (Note 6)	693	279	1,389	558
Stock based compensation expense	3,374	2,718	6,132	5,852
Asset retirement expenditures (Note 7)	(1,359)	337	(3,440)	(1,248)
Future income tax reduction	(6,546)	(6,682)	(4,584)	(8,094)
	51,240	29,956	99,941	98,723
Changes in non-cash working capital (Note 9)	5,943	(42,828)	70	(45,882)
	57,183	(12,872)	100,011	52,841
FINANCING ACTIVITIES				
Increase (decrease) in bank debt	39,311	41,988	(99,494)	(32,802)
Repayment of convertible debenture (Note 6)	(55,667)	-	(55,667)	-
Issue of shares (Note 8)	-	-	600,138	140,507
Exercise of Options (Note 8)	263	848	263	848
Cash dividends/distributions	(18,933)	(16,590)	(34,151)	(27,243)
Share issue costs (Note 8)	130	105	(11,191)	(6,691)
Changes in non-cash working capital (Note 9)	(1,047)	-	(607)	-
	(35,943)	26,351	399,291	74,619
INVESTING ACTIVITIES				
Asset Acquisition (Note 4)	376	-	(389,233)	-
Asset Disposition (Note 4)	42,854	-	42,854	-
Plan of Arrangement (Note 1)	-	(429)	-	(5,167)
Capital expenditures	(36,642)	(12,094)	(157,415)	(110,017)
Changes in non-cash working capital (Note 9)	(27,828)	(956)	4,492	(12,276)
	(21,240)	(13,479)	(499,302)	(127,460)
CHANGE IN CASH	-	-	-	-
CASH, BEGINNING AND END OF PERIOD	-	-	-	-

See accompanying notes to the consolidated financial statements

PROGRESS ENERGY RESOURCES CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) (tabular amounts are in \$ thousands except for shares and per share amounts)

1. PLAN OF ARRANGEMENT

On January 15, 2009 Progress Energy Trust (the "Trust") and ProEx Energy Ltd. ("ProEx") completed the plan of arrangement (the "Arrangement") whereby ProEx acquired all of the issued and outstanding units of the Trust and the exchangeable shares of the Trust's subsidiary, Progress Energy Ltd. and changed its name to Progress Energy Resources Corp. ("Progress" or the "Company"). The Trust unitholders received 0.8125 of a ProEx share for each trust unit held and the holders of exchangeable shares received 0.8125 of a ProEx share for each unit they were entitled to by multiplying the exchangeable shares held by the exchange ratio on January 15, 2009 of 1.62092.

Upon completion of the Arrangement, the Trust was liquidated and dissolved and Progress received all of the assets and assumed all of the liabilities of the Trust.

As a result of the Arrangement, the former owners of the Trust owned approximately 61 percent of the Company and the former owners of ProEx owned approximately 39 percent. In accordance with Canadian generally accepted accounting principles ("GAAP"), the Arrangement has been accounted for as a reverse takeover, whereby the Trust was deemed to be the acquirer of ProEx. The consolidated financial statements for 2009 reflect the financial position, results of operations and cash flows of the Company as if the Company had always carried on the business formerly carried on by the Trust. The six months June 30, 2009 reflect the results of operations and cash flows of the Trust and its subsidiaries for the period January 1 to January 14, 2009 and the results of operations and cash flows of the Company and its subsidiaries for the period January 15 to June 30, 2009. Due to the change from a trust to a corporation, certain information included in the MD&A for prior periods may not be directly comparable.

The total consideration of the reverse takeover was approximately \$663.5 million based on the notional issuance of 73,479,481 Trust Units at \$9.26 per Trust Unit based on the weighted average trading price of the Trust for a period before and after the announcement date of November 17, 2008, adjusted for the effect of normal issue costs and including transaction and other costs of \$10.3 million. Using the purchase method of accounting, the net assets acquired and the consideration paid were as follows:

Net Assets at Assigned Values	
Current assets	35,565
Current liabilities	(54,359)
	(18,794)
Property, plant and equipment	967,078
Bank debt	(163,215)
Future income taxes	(114,698)
Asset retirement obligations	(6,827)
	663,544
Consideration	
Common shares issued	653,203
Transaction costs	7,633
ProEx options	2,708
	663,544

2. ORGANIZATION AND STRUCTURE OF THE BUSINESS

Progress is engaged in the exploration for, and the acquisition, development and production of, oil and natural gas reserves in the provinces of British Columbia and Alberta. Progress was incorporated on April 8, 2004 under the name ProEx Energy Ltd. and commenced commercial operations on July 2, 2004. On January 15, 2009, in connection with the Arrangement, ProEx was renamed Progress Energy Resources Corp. The Company currently has one wholly owned subsidiary and is a partner in a general partnership.

3. SUMMARY OF ACCOUNTING POLICIES

The interim consolidated financial statements of the Company have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2009. The disclosures provided below are incremental to those included with the annual consolidated financial statements and certain disclosures, which are normally required to be included in the notes to the annual consolidated financial statements, have been condensed or omitted. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company's annual filings for the year ended December 31, 2009.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian GAAP.

The preparation of financial statements in conformity with Canadian GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

4. PROPERTY, PLANT AND EQUIPMENT

	June 30 2010	December 31 2009
Property, plant and equipment	3,293,302	2,785,401
Accumulated depletion and depreciation	(930,690)	(805,636)
Property, plant and equipment, net	2,362,612	1,979,765

The calculation of depletion and depreciation expense included an estimated \$460.8 million (2009 - \$199.8 million) for future development costs associated with proved undeveloped reserves and excluded \$63.5 million (2009 - \$49.1 million) for the estimated salvage value of production equipment and facilities and \$323.7 million (2009 - \$229.4 million) for the estimated value of unproven properties. Depletion and depreciation expense for the three and six months ended June 30, 2010 was \$69.7 million and \$125.1 million respectively (2009 - \$57.1 million and \$112.4 million).

The Company capitalized approximately \$1.6 million of geological and geophysical compensation costs associated with the exploration and development of capital assets during the six months ended June 30, 2010 (2009 - \$1.6 million).

Asset Acquisition

On March 31, 2010, Progress acquired certain crude oil and natural gas assets for \$389.2 million, including transaction costs of \$2.1 million ("Asset Acquisition"). The full amount of the Asset Acquisition was recorded to property, plant and equipment (including unproved property value of \$83.4 million which is excluded from the calculation of depletion and depreciation) and in addition, the Company recorded an asset retirement obligation on the acquired assets of \$5.3 million.

Asset Disposition

On June 30, 2010, Progress disposed of its central Alberta properties for \$42.9 million. As a result of the disposition, the Company reduced its asset retirement obligation by \$5.4 million.

5. BANK DEBT

	June 30 2010	December 31 2009
Direct advances	6,384	17,878
Banker's acceptances	172,000	260,000
Total bank debt	178,384	277,878

The Company has extendible revolving term credit facilities in the amount of \$650 million from a syndicate of lenders. The borrowing base under the facilities, which were renewed on March 31, 2010, is currently \$650 million and is subject to periodic re-determination by the lenders. The facilities are available on a revolving basis until March 30, 2011, subject to extension at the lenders' discretion for successive 364 day periods. If an extension is not provided, the facilities will be available on a non-revolving basis for the following year and all amounts outstanding thereunder must be repaid in full at the end of such year. The facilities bear interest at a rate based on bankers acceptance rates (or LIBOR, for US dollar borrowings) plus a specified margin, which margin varies based on the Company's debt to cash flow ratio. The facilities contain customary restrictions on the incurrence of additional indebtedness, the disposition of assets and the granting of security. The facilities also contain customary events of default, including if a change of control has occurred in respect of the Company, which could occur: (a) if a person or persons acting jointly or in concert, acquired more than 30 percent of the outstanding voting securities of the Company; or (b) if 50 percent or more of the consolidated reserves of the Company and its subsidiaries were sold or otherwise disposed of to another person. The Company is restricted from making distributions (including the declaration of dividends) if it is in default under the facilities (or a default would reasonably be expected to occur as a result of such distribution) or if its outstanding borrowings exceed its borrowing threshold. As with previous credit facilities, the amount of the facilities is subject to a borrowing base review performed on a periodic basis by the lenders, based primarily on reserves and using commodity prices estimated by the lenders, as well as other factors. A decrease in the borrowing base could result in a reduction to the credit facilities which may require a repayment to the lenders over the following 12 month period. The last borrowing base review was performed in March 2010 using the Company's reserves at January 1, 2010 and prices determined by the lenders. As a result, there was no change to the current credit facilities. The facilities are secured by a \$1.5 billion fixed and floating charge debenture on the assets of the Company. The next semi-annual borrowing base review will be in September 2010.

6. CONVERTIBLE DEBENTURES

On October 23, 2009 Progress issued \$200.0 million principal amount of 5.25 percent convertible unsecured subordinated debentures (the "5.25 percent debentures"). Interest on the 5.25 percent debentures is payable in equal instalments semi-annually in arrears on April 30 and October 31 in each year commencing April 30, 2010. The 5.25 percent debentures will mature on October 31, 2014. Each debenture may be converted into common shares at the option of the holder at a conversion price of \$18.00 per common share. After October 31, 2012, the Company may redeem the 5.25 percent debentures in whole or in part provided the common shares weighted average trading price during a specified period prior to redemption is at least 125 percent of the conversion price. The Company may satisfy the payment of principal or interest in common shares under certain circumstances.

The 6.75 percent debentures, the 6.25 percent debentures, and the 5.25 percent debentures (the "Debentures") have been classified as debt, net of issue costs and net of the fair value of the conversion feature at the date of issue which has been classified as part of shareholders' equity. The issue costs will be amortized over the

term of the Debentures and the debt portion will accrete up to the principal balance at maturity. The accretion, amortization of issue costs and the interest paid are expensed within interest and financing expense on the consolidated statements of earnings. The fair value of the conversion feature was determined at the time of issue as the difference between the principal value of the debentures and the discounted cash flows assuming an eight percent rate for the 6.75 percent and 6.25 percent debentures and a rate of 8.3 percent for the 5.25 percent debentures, which were the estimated rates for debt with similar terms at the time. If the Debentures are converted to shares, a portion of the value of the conversion feature under shareholders' equity will be reclassified to shareholders' capital along with the conversion price paid.

The 6.25 percent debentures pay interest semi-annually and are convertible at the option of the holder at any time into fully paid common shares at a conversion price of \$24.00 per common share. Pursuant to the Arrangement, the conversion price has been adjusted to reflect the ratio of common shares received for each Trust unit. The 6.25 percent debentures mature on September 30, 2011, at which time they are due and payable. The Company may elect to satisfy the interest and principal obligations by the issuance of common shares.

The 6.75 percent debentures matured and were settled on June 30, 2010.

	Six Months Ended June 30						
	2010				2009		
Debentures	6.75%	6.25%	5.25%	Total	6.75%	6.25%	Total
Principal, end of period	-	75,000	200,000	275,000	55,667	75,000	130,667
Debt portion, beginning of period	55,180	72,132	169,441	296,753	54,196	70,512	124,708
Accretion	258	487	2,185	2,930	256	480	736
Amortization of issue costs	229	325	835	1,389	233	325	558
Repayment	(55,667)	-	-	(55,667)	-	-	-
Debt portion, end of period	-	72,944	172,461	245,405	54,685	71,317	126,002
Equity portion, beginning of period	2,753	4,946	23,311	31,010	2,753	4,946	7,699
Expired	(2,753)	-	-	(2,753)	-	-	-
Equity portion, end of period	-	4,946	23,311	28,257	2,753	4,946	7,699

Total interest charged to earnings for the three months ended June 30, 2010 was \$6.9 million (2009 - \$2.8 million) which includes \$1.5 million of debenture accretion (2009 - \$0.4 million) and \$0.7 million of amortized issue costs (2009 - \$0.3 million).

Total interest charged to earnings for the six months ended June 30, 2010 was \$13.7 million (2009 - \$5.5 million) which includes \$3.0 million of debenture accretion (2009 - \$0.7 million) and \$1.4 million of amortized issue costs (2009 - \$0.6 million).

7. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations were estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows required to settle the asset retirement obligations is approximately \$170.4 million which will be incurred over the next 40 years with the majority of costs incurred between 2018 and 2038. A credit adjusted risk-free rate of eight to nine percent was used to calculate the fair value of the asset retirement obligations.

The following reconciles the Company's asset retirement obligations:

	Six Months Ended June 30	
	2010	2009
Balance, beginning of period	39,423	29,412
Liabilities incurred	3,687	1,188
Liabilities acquired	5,298	-
Liabilities settled	(3,440)	(1,248)
Liabilities disposed	(5,375)	-
Plan of Arrangement (<i>Note 1</i>)	-	6,827
Accretion expense	1,566	1,410
Balance, end of period	41,159	37,589

8. SHAREHOLDERS' EQUITY

An unlimited number of voting common shares may be authorized and issued. Each common share is transferable, carries the right to one vote and represents an equal undivided beneficial interest in any dividends from the Company and in the assets in the event of termination or winding-up of the Company. All common shares are of the same class with equal rights and privileges.

Shareholders' Capital

a) Common Shares of Progress Energy Resources Corp.

	Six Months Ended June 30			
	2010		2009	
	Number	Amount	Number	Amount
Common Shares				
Balance, beginning of period	165,283,517	1,944,738	-	-
Issued for Trust units (<i>Note 1</i>)	-	-	81,107,815	1,019,417
Issued for Exchangeable Shares (<i>Note 1</i>)	-	-	10,664,982	122,752
Issued for ProEx shares (<i>Note 1</i>)	-	-	59,702,078	653,203
Share based compensation	92,562	1,620	500,108	10,093
Dividend reinvestment program	298,569	3,679	-	-
Issued on exercise of options	25,000	263	150,000	848
Issued for cash	47,630,000	600,138	12,950,000	140,507
Share issue costs (net of tax of \$3,024 and \$1,877, respectively)		(8,167)		(4,814)
Balance, end of period	213,329,648	2,542,271	165,074,983	1,942,006

b) Trust Units of Progress Energy Trust

	Six Months Ended June 30			
	2010		2009	
	Number	Amount	Number	Amount
Trust Units				
Balance, beginning of period	-	-	99,819,172	1,019,361
Exchangeable shares converted	-	-	5,831	56
Exchanged for common shares <i>(Note 1)</i>	-	-	(99,825,003)	(1,019,417)
Balance, end of period	-	-	-	-

On April 27, 2010, 86,198 shares were issued to settle long term incentive units that vested, resulting in \$1.5 million being transferred from contributed surplus to shareholder' capital.

On March 2, 2010, Progress issued 47,630,000 subscription receipts at a price of \$12.60 per subscription receipt for total gross proceeds of \$600.1 million (\$588.8 net of issue costs). The financing was comprised of a \$350 million subscription receipt private placement with the Canada Pension Plan Investment Board ("CPPIB") and a concurrent \$250 million subscription receipt bought deal financing through a syndicate of underwriters. Each private placement subscription receipt and public subscription receipt represented the right to receive one common share of Progress, without the payment of any additional consideration, subject to the closing of the Asset Acquisition which occurred on March 31, 2010.

The private placement with CPPIB contains certain conditions in regards to their investment and ongoing relationship with Progress including:

- Lockup provision - requires CPPIB to not sell any shares for an 18 month period following the closing date and CPPIB shall elect to have the shares participate in the dividend reinvestment program.
- Governance - so long as CPPIB owns greater than 12.5 percent of the outstanding common shares they shall have the right to nominate one individual to be a director of Progress. If CPPIB owns greater than 10 percent of the outstanding common shares, Progress shall discuss with CPPIB any proposed transaction for which the Company will require equity financing before implementing such transaction.
- Registration rights – if CPPIB holds 10 percent or more of the outstanding common shares, they shall have the right to require Progress at CPPIB's expense, to prepare, file and obtain receipt for a final prospectus offering for sale any portion of the common shares held by CPPIB.
- After 18 months from the closing of the private placement, CPPIB shall have the right to include common shares owned by CPPIB in a prospectus offering to the extent of 15 percent of such offering.
- Right to participate in future offerings – so long as CPPIB owns greater than 10 percent of the outstanding common shares, CPPIB shall have the pre-emptive right to participate in future offerings up to CPPIB's pro-rata ownership interest immediately prior to the offering.

During 2010, the Company issued 298,569 common shares in payment of \$3.7 million of dividends for shareholders that elected to participate in the dividend reinvestment program ("DRIP"). The number of shares issued is based on 95 percent of the average market price being the weighted average trading prices of the shares for the five consecutive trading days before the dividend payment date. Subsequent to June 30, 2010, on July 15, 2010 the Company issued 453,427 common shares under the DRIP.

Subsequent to June 30, 2010, 485,590 shares were issued to settle the performance units granted in 2007 that vested.

Management of Capital Structure

Progress' objectives when managing capital has not changed as a result of the Arrangement and the subsequent restructuring from a trust to a corporation. The objectives remain (i) to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk; and (ii) to manage capital in a manner which balances the interests of equity and debt holders.

In the management of capital, Progress includes share capital and total debt, which is made up of bank debt, convertible unsecured debentures and working capital. Progress manages the capital structure and makes adjustments in light of current economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Progress may issue new common shares, issue new debt, issue new debt to replace existing debt with different characteristics, adjust exploration and development capital expenditures, and acquire or dispose of assets. During the first quarter of 2010, Progress issued 47,630,000 common shares at a price of \$12.60 per share in relation to the Asset Acquisition and to maintain its flexible capital structure.

The key measures that the Company utilizes in evaluating its capital structure are total debt to cash flow from operating activities (before changes in non-cash working capital) and the current credit available from its creditors in relation to the Company's budgeted capital program. Total debt to cash flow from operating activities (before changes in non-cash working capital) is calculated as total debt divided by cash flow from operating activities (before changes in non-cash working capital) and represents the time period it would take to pay off the debt if no further capital expenditures were incurred and if cash flow from operating activities (before changes in non-cash working capital) stayed constant. At June 30, 2010 total debt was \$441.9 million and the annualized first and second quarter cash flow from operating activities (before changes in non-cash working capital) based on the six months ended June 30, 2010 was \$199.9 million, resulting in a total debt to cash flow from operating activities (before changes in non-cash working capital) ratio of 2.2. This ratio is acceptable to the Company in light of the current natural gas price environment during the period.

Net Loss Per Share

The following table summarizes the weighted average common shares used in calculating net loss per share:

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2010	2009	2010	2009
Weighted average common shares – basic	213,259,297	164,749,386	189,708,365	156,636,620
Performance units	744,445	578,866	760,941	512,852
Weighted average common shares – diluted	214,003,742	165,328,252	190,469,306	157,149,472

Shares potentially issuable on the conversion of the Debentures for the three and six months ended June 30, 2010 and 2009 are anti-dilutive and are not included in the calculation of diluted weighted average units.

Stock based compensation expenses

In conjunction with the Arrangement, the Company has established a stock based compensation plan ("Plan") comprised of a Stock Option Plan, as well as a Share Unit Plan which includes both restricted unit awards and performance unit awards. Unless otherwise approved by the shareholders, the Company may grant up to a maximum of 1,700,000 common shares pursuant to the Share Unit Plan. The restricted unit awards are whole share awards that entitle the holder to that number of shares at the end of the vesting period. Performance unit awards are similar to the restricted unit awards, however, a performance factor is applied to the grant on the vesting date. Both the restricted unit awards and performance unit awards vest at the end of a three year period and include accumulated dividends paid over the vesting period, however for new employees, their initial grant will vest 20 percent on the first anniversary date, 30 percent on the second

anniversary and 50 percent on the third anniversary. Under the Stock Option Plan, unless otherwise approved by the shareholders, the Company may grant up to a maximum of 10,000,000 stock options. The stock options granted under the Stock Option Plan vest one third in each of the second, third and fourth year anniversary dates from the date of grant. The options expire in five years from the date of grant.

Grants that were outstanding from the Trust and ProEx, which include performance units and units granted under the LTI Component as well as stock options of ProEx, will continue until their original vesting dates.

Stock options

As at June 30, 2010 there were 5,988,533 stock options outstanding. This includes stock options which were granted under the Plan and stock options that have continued from ProEx's original stock option plan.

The following table summarizes the stock option activity for the six months ended June 30, 2010.

	Number Of Options	Weighted Average Exercise Price
Balance, beginning of period	5,872,533	11.93
Granted	191,000	12.74
Exercised	(25,000)	10.50
Forfeited	(50,000)	11.40
Balance, end of period	5,988,533	11.97

The following table summarizes stock options outstanding and exercisable at June 30, 2010.

	Options Outstanding			Options Exercisable	
Range of exercise price	Number Outstanding At Period End	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable At Period End	Weighted Average Exercise Price
\$9.35 to \$11.40	4,524,000	3.64	11.36	-	-
\$12.00 to \$14.22	1,191,033	2.34	13.49	650,033	13.62
\$14.50 to \$16.50	273,500	1.83	15.33	240,167	15.30
	5,988,533	3.15	11.97	890,200	14.07

The Company accounts for its stock based compensation plan using the fair value method. Under this method, a compensation cost is charged over the vesting period for stock options granted to officers, directors and employees with a corresponding increase to contributed surplus.

The fair value of the options granted during the three and six months ended June 30, 2010 and 2009 were estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

	Three Months Ended June 30		Six Months Ended June 30	
Assumptions	2010	2009	2010	2009
Risk free interest rate (%)	2.35	2.25	2.32	1.8
Expected life (years)	4.00	4.00	4.00	4.00
Expected volatility (%)	43	43	43	42
Expected dividend yield (%)	3.2	4.0	3.2	3.5
Weighted average fair value of options granted (\$)	3.55	2.75	3.64	3.00

Share units

The activity for the six months ended June 30, 2010 and 2009 relating to the Company's Share Unit Plan which includes both restricted units and performance units as described above, is as follows:

Restricted Units	Six Months Ended June 30	
	2010	2009
Balance, beginning of period	93,259	-
Granted	-	5,159
Forfeited	(650)	-
Balance, end of period	92,609	5,159

Vesting Date		
2010	950	-
2011	5,036	-
2012	86,623	5,159
Total	92,609	5,159

Performance Units	Six Months Ended June 30	
	2010	2009
Balance, beginning of period	259,950	-
Forfeited	(2,800)	-
Balance, end of period	257,150	-

Vesting Date		
2010	2,790	-
2011	4,185	-
2012	250,175	-
Total	257,150	-

Subsequent to June 30, 2010, the Company granted 34,925 restricted unit awards and 275,650 performance unit awards.

Share Appreciation Rights (SARs)

ProEx had a Share Appreciation Rights (SARs) plan that allowed for the issuance of SARs to certain employees, which entitle the holder to receive a cash payment equal to the difference between the stated exercise price and the market price of common shares on the date of surrender. SARs vest equally over a three year period. The exercise price was based on the market price at the time of grant. At June 30, 2010, 65,000 (2009 – 85,000) SARs were outstanding at an average price of \$13.99. No compensation expense relating to the SARs has been recorded for the period ended June 30, 2010 (2009 – nil).

Long Term Incentive Component of the Trust

Awards granted under the LTI component will vest over three years with 40 percent vesting on the second anniversary of the date of grant and 60 percent vesting on the third anniversary of the date of grant. An additional 15 percent grant will be paid if the holder holds the common shares they receive on the second anniversary date for one additional year. For the six months ended June 30, 2010, 92,562 common shares were issued to settle LTI amounts that vested. This includes the 15 percent grant that was paid to LTI holders that held the shares they received on the second anniversary date for one additional year. This resulted in an additional 16,683 common shares being issued by the Company. As at June 30, 2010 23,240 common shares remain outstanding under the LTI component. As at June 30, 2010, the total compensation cost of the LTI component has been fully recognized and totals \$3.0 million of which \$2.8 million was recognized through stock based compensation expense and \$0.2 million was capitalized over the vesting period.

Long Term Incentive Component of ProEx

ProEx participated in the Trust's LTI by granting common shares to non-executive Trust employees in their capacity as service providers. To facilitate these awards, the Trust had purchased ProEx common shares and was reimbursed by ProEx for the cost incurred. The ProEx awards granted under the LTI vest on the second anniversary date of the date of grant. As these shares have been purchased and will not be issued from treasury, the stock based compensation expense is a cash expense and the shares granted do not impact the diluted number of shares outstanding. During the six months ended June 30, 2010 10,879 common shares were released to employees on the vesting of their ProEx LTI. As at June 30, 2010 11,171 common shares have not yet vested.

Performance Unit Incentive Plan

The outstanding performance units that had been granted by the Trust vest at the end of a three year performance period at which time they will be converted to common shares, or the cash equivalent, and include the accumulated distributions of the Trust and accumulated dividends of the Company over the three year period. For new employees hired their initial grant vests 20 percent on the first anniversary date, 30 percent on the second anniversary and 50 percent on the third anniversary. The actual number of common shares paid is dependent upon a performance factor that is determined based on the Company's performance relative to its peers and ranges from 0.5 to 1.5 times the initial grant, except for performance units granted to the Trust's executives effective July 2, 2007 and 2008 which can range from 0 to 3 times. Payment may be in the form of cash or common shares, at the Company's option. Management anticipates, at the end of the performance period, accumulated distributions and dividends will be paid in cash and common shares will be paid from treasury. Actual performance factors will not be determined until the end of the three year performance periods.

As at June 30, 2010, there are 712,600 performance units outstanding with 317,952 vesting on July 2, 2010, and 394,648 vesting on July 2, 2011 the amounts of which have been adjusted by 0.8125 of a common share for each Trust unit as specified in the Arrangement. The stock based compensation expense is calculated using the current estimated performance factor for each performance unit grant based on the Company's

operating performance. Actual performance factors will not be determined until the end of the performance period. On July 2, 2010 485,590 common shares were issued to settle the performance units granted in 2007 that vested at a performance factor of 1.5 times.

On January 15, 2009, 202,495 common shares were issued to settle the performance units that vested as part of the Arrangement at a performance factor of 1.5 times. As a result \$3.4 million was transferred from contributed surplus to shareholders' capital.

For the three and six months ended June 30, 2010, \$3.4 million and \$6.1 million was charged to stock based compensation expense (2009 – \$2.8 million and \$6.1 million) and \$0.2 million and \$0.4 million was capitalized (2009 – \$0.2 million and \$0.4 million) relating to the total performance units, stock options and shares under the LTI component outstanding.

Performance Units of the Trust ¹	Six Months Ended June 30	
	2010	2009
Balance, beginning of period	717,718	1,087,247
Performance factor adjustment ²	-	144,543
Settled ²	-	(450,180)
Forfeited	(5,118)	(59,840)
Balance, end of period	712,600	721,770
Vesting Date		
2010 ³	324,388	327,880
2011 ⁴	388,212	393,890
Total	712,600	721,770

(5) Amounts have been adjusted to reflect the ratio of 0.8125 of a common share for each trust unit as specified in the Arrangement.

(6) As a result of the Arrangement, the performance units granted to non-executive employees, granted in 2006, vested and were settled at a performance factor of 1.5 times resulting in the issuance of 202,495 common shares. The executive portion was settled at a performance factor of 1.5 times resulting in the issuance of 231,136 common shares. The non-executive employees, who receive their initial performance unit grants at the phased in vesting, resulted in the issuance of 16,549 common shares.

(7) The 2007 performance units were settled subsequent to June 30, 2010, at a performance factor of 1.5 times resulting in the issuance of 485,590 common shares.

(8) Using the current anticipated performance factor of 1.5 times, 199,631 additional common shares will be issued on the vesting of the performance units granted in 2008.

Units under LTI Component ¹	Six Months Ended June 30	
	2010	2009
Balance, beginning of period	100,956	161,284
Additional grant ²	16,683	-
Settled	(92,562)	(49,928)
Forfeited	(1,837)	(5,599)
Balance, end of period	23,240	105,757
Vesting Date		
2009	-	3,681
2010	10,280	87,947
2011	12,960	14,129
Total ²	23,240	105,757

(1) Amounts have been adjusted to reflect the ratio of 0.8125 of a common share for each trust unit as specified in the Arrangement.

(2) An additional 15 percent grant was paid to LTI holders that held the shares they received on the second anniversary date for one additional year. This resulted in an additional 16,683 common shares being issued by the Company.

The following table reconciles the Company's contributed surplus:

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Balance, beginning of period	19,867	15,629	17,035	12,959
ProEx options assumed on the Arrangement <i>(Note 1)</i>	-	-	-	2,708
Stock based compensation expense	3,374	2,718	6,132	5,852
Stock based compensation capitalized	225	169	360	410
Convertible debentures – equity portion <i>(Note 6)</i>	2,753	-	2,753	-
Settlements	(1,559)	(6,680)	(1,620)	(10,093)
Balance, end of period	24,660	11,836	24,660	11,836

9. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Accounts receivable	6,935	9,060	(2,939)	31,436
Prepaid expenses and deposits	512	948	(1,158)	(994)
Accounts payable	(30,379)	(53,792)	8,052	(83,360)
Current income taxes payable	-	-	-	(5,240)
Change in non-cash working capital	(22,932)	(43,784)	3,955	(58,158)
Relating to:				
Investing activities	(27,828)	(956)	4,492	(12,276)
Financing activities	(1,047)	-	(607)	-
Operating activities	5,943	(42,828)	70	(45,882)

Interest and taxes paid

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Interest paid	9,847	4,720	18,890	13,050
Income and other taxes paid	-	-	318	-

10. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The Company's financial instruments recognized on the balance sheet consist of accounts receivable, investments, accounts payable and accrued liabilities, dividends payable, bank debt, convertible debentures and derivative natural gas contracts ("financial instruments"). The fair value of these instruments, excluding the investments, convertible debentures and the derivative natural gas contracts, approximate their carrying amounts due to their short terms to maturity or the indexed rate of interest on the bank debt. The fair value

of the convertible debentures outstanding as at June 30, 2010 was approximately \$278.7 million (2009 - \$128.6 million).

In light of the current economic conditions, the Company continues to monitor its accounts receivable and its allowance for doubtful accounts. As at June 30, 2010 there have been no impairment issues. The Company has an allowance for doubtful accounts of approximately \$0.9 million.

Included in investments at June 30, 2010, were 8,300,000 Class A common shares in Seaview Energy Inc. valued at \$8.8 million based on a closing price of \$1.06 per share. A gain of \$1.4 million and a loss of \$0.3 million (2009 – gain of \$3.7 million and \$1.6 million) was recognized for the three and six months ended June 30, 2010. At June 30, 2010, Progress owned 448,578 shares of Crocotta Energy Inc. valued at \$0.7 million based on a closing price of \$1.66 per share. A gain of \$0.1 million and a gain of \$0.2 million (2009 – gain of \$0.1 million and \$0.1 million) was recognized for the three and six months ended June 30, 2010.

Commodity Price Contracts

The Company has entered into several financial instruments for the purpose of protecting its cash flow from operations before changes in non-cash working capital. For the three months ended June 30, 2010, the Company's risk management program had a net realized gain of \$3.9 million (2009 - \$ nil). For the six months ended June 30, 2010, the Company's risk management program had a net realized gain of \$3.0 million (2009 - \$17.5 million gain).

At June 30, 2010 the fair value of the financial instruments was an asset of \$9.5 million (2009 – asset of \$0.3 million), resulting in an unrealized loss of \$7.9 million and an unrealized gain of \$6.6 million for the three and six months ended June 30, 2010 (2009 - \$0.3 million unrealized gain and \$14.3 million unrealized loss).

Contracts outstanding in respect to financial instruments are as follows:

Natural gas

Contracts	Volume	Pricing Point	Strike Price \$/gj	Term
Fixed Price Swap	10,000 gj/d	AECO	\$5.750	Mar 1/10 to Dec 31/10
Fixed Price Swap	10,000 gj/d	AECO	\$5.800	Mar 1/10 to Dec 31/10
Fixed Price Swap	10,000 gj/d	AECO	\$4.150	July 1/10 to July 31/10
Fixed Price Swap	15,000 gj/d	AECO	\$4.150	July 1/10 to July 31/10
Fixed Price Swap	10,000 gj/d	AECO	\$4.275	Aug 1/10 to Aug 31/10
Fixed Price Swap	15,000 gj/d	AECO	\$4.265	Aug 1/10 to Aug 31/10

Contracts	Volume	Pricing Point	Strike Price \$/gj	Premium \$/gj	Term
Bought Put Option	25,000 gj/d	AECO	\$6.430	\$1.08	Nov 01/10 to Mar 31/11

Contracts	Volume	Pricing Point	Strike Price \$/gj	Term
Sold Call Option	10,000 gj/d	AECO	\$7.575	Jan 1/11 to Dec 31/11
Sold Call Option	10,000 gj/d	AECO	\$7.500	Jan 1/11 to Dec 31/11

2010 SELECTED QUARTERLY INFORMATION

FINANCIAL HIGHLIGHTS

(unaudited)

(\$ thousands except per share amounts)

	2009				2010	
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30
Income Statement						
Petroleum and natural gas revenue	102,660	77,031	64,421	86,145	113,471	115,859
Cash flow ¹	68,767	29,956	20,596	33,935	48,701	51,240
Per share – diluted	0.46	0.18	0.12	0.20	0.29	0.24
Cash dividends declared ²	17,134	17,611	16,513	16,528	21,301	21,333
Per share	0.10	0.10	0.10	0.10	0.10	0.10
Net earnings	(4,694)	(20,915)	(26,877)	(20,075)	764	(23,288)
Per share – basic	(0.03)	(0.13)	(0.16)	(0.12)	-	(0.11)
Per share – diluted	(0.03)	(0.13)	(0.16)	(0.12)	-	(0.11)
Balance Sheet						
Exploration and development capital	97,780	12,034	32,445	49,512	124,142	38,231
Net property acquisitions (dispositions)	143	60	(403)	(1,546)	(3,369)	(1,589)
Total capital expenditures	97,923	12,094	32,042	47,966	120,773	36,642
Asset Acquisition ³	-	-	-	-	389,609	(376)
Asset Disposition ⁴	-	-	-	-	-	(42,854)
Working capital deficiency (surplus)	37,869	(8,696)	9,041	9,269	42,506	18,087
Bank debt	387,956	429,944	440,518	277,878	139,074	178,384
Convertible debentures	125,352	126,002	126,656	296,753	298,902	245,405
Total debt	551,177	547,250	576,215	583,900	480,482	441,876
Shareholders' equity	1,798,767	1,764,050	1,723,658	1,715,298	2,290,806	2,252,545
Common Shares (thousands except where otherwise stated)						
Shares outstanding, end of period	164,627	165,075	165,126	165,284	213,014	213,330
Weighted average shares - basic	146,743	164,749	165,120	165,258	165,896	213,259
Weighted average shares - diluted	149,479	165,328	165,666	165,927	166,763	214,004
Common Share Trading Statistics (\$)						
High	12.45	11.72	14.02	15.29	14.70	12.97
Low	7.60	8.70	8.52	12.49	11.25	10.67
Closing	9.36	10.16	13.82	14.15	11.77	12.37
Share volume traded (thousands)	54,304	52,501	50,758	43,897	49,171	58,964

1 Cash flow represents the cash flow from operations before changes in non-cash working capital, which as presented does not have any standardized meaning prescribed by Canadian GAAP and therefore it may not be comparable with the calculation of similar measures for other entities.

2 The dividends declared in the first and second quarters of 2009 include \$0.7 million and \$1.0 million, respectively, of accumulated distributions and dividends paid on performance units that vested during the periods.

3 Foothills asset acquisition on March 31, 2010.

4 West Central Alberta asset disposition on June 30, 2010.

2010 SELECTED QUARTERLY INFORMATION

Operational Highlights (unaudited)	2009				2010	
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30
Daily Production						
Natural gas (mcf/d)	174,535	174,472	157,522	161,497	178,993	226,898
Crude oil (bbls/d)	2,151	2,121	1,874	1,882	1,812	2,014
Natural gas liquids (bbls/d)	1,930	2,617	1,995	2,592	3,426	3,690
Total daily production (boe/d)	33,170	33,817	30,122	31,390	35,070	43,520
Average Realized Prices						
Natural gas (\$/mcf)	5.52	3.62	3.10	4.21	5.27	4.03
Crude oil (\$/bbl)	44.50	56.15	69.66	71.06	75.33	72.97
Natural gas liquids (\$/bbl)	38.98	37.61	41.46	49.15	52.68	56.40
Highlights (\$/boe)						
Weighted average sales price ¹	34.39	25.03	23.25	29.83	35.95	29.25
Realized gain (loss) on financial instruments	5.85	-	0.41	(0.06)	(0.28)	0.97
Royalties	(5.58)	(2.41)	(2.22)	(4.21)	(6.30)	(4.27)
Operating expenses	(6.72)	(7.09)	(6.94)	(6.51)	(6.12)	(6.45)
Transportation expenses	(2.90)	(2.91)	(3.30)	(3.19)	(3.02)	(3.24)
Operating Netbacks	25.04	12.62	11.20	15.86	20.23	16.26
General and administrative expense	(1.18)	(1.17)	(1.15)	(1.14)	(1.13)	(1.02)
Stock based compensation expense	(1.13)	(0.92)	(0.92)	(0.99)	(0.87)	(0.85)
Interest and financing expenses	(2.18)	(2.01)	(2.25)	(3.29)	(3.70)	(2.51)
Unrealized gain/(loss) on financial instruments	(4.89)	0.10	(0.31)	1.17	4.61	(2.00)
Unrealized gain/(loss) on investments	(0.69)	1.24	(0.06)	(0.24)	(0.50)	0.38
Depletion, depreciation and accretion expense	(18.77)	(18.83)	(18.99)	(20.04)	(17.79)	(17.80)
Net earnings before taxes	(3.80)	(8.97)	(12.48)	(8.67)	0.85	(7.54)
Future income taxes recovery	0.47	2.17	2.76	1.82	(0.62)	1.65
Current income tax recovery (expense)	1.76	-	-	(0.11)	-	-
Net Earnings	(1.57)	(6.80)	(9.72)	(6.96)	0.23	(5.89)
Drilling Results (# of Wells)						
Gross	29	-	11	12	29	3
Net – natural gas	25.5	-	10.1	9.1	25.7	2.7
Success Rate (percent)	88	N/A	100%	100%	100%	100%

¹ Includes sulphur net revenue with no associated production as no conversion exists for tons to boe.

CORPORATE INFORMATION OF PROGRESS ENERGY RESOURCES CORP.

DIRECTORS

David D. Johnson
Executive Chairman
Progress Energy Resources Corp.
Calgary, Alberta

Donald F. Archibald ⁽¹⁾⁽⁴⁾
President
Cypress Energy Corp.
Calgary, Alberta

John A. Brussa ⁽³⁾⁽⁴⁾
Partner
Burnet, Duckworth and Palmer LLP
Calgary, Alberta

Howard Crone ⁽¹⁾⁽²⁾
President & CEO
Cequence Energy Ltd.
Calgary, Alberta

Michael R. Culbert
President and CEO
Progress Energy Resources Corp.
Calgary, Alberta

Gary E. Perron ⁽¹⁾⁽³⁾
Senior Vice President and
Managing Director
BMO Nesbitt Burns
Calgary, Alberta

Brian McLachlan ⁽²⁾⁽³⁾
President & CEO
Yoho Resources Inc.
Calgary, Alberta

Terrance D. Svarich ⁽²⁾⁽⁴⁾
President
Devsun Ltd.
Calgary, Alberta

⁽¹⁾ Member of Audit Committee
⁽²⁾ Member of Reserve Committee

⁽³⁾ Member of Compensation
Committee

⁽⁴⁾ Member of Corporate Governance and
Nominating Committee

Environment, Health and Safety matters are
addressed by the entire Board of Directors

OFFICERS

David D. Johnson
Executive Chairman

Michael R. Culbert
President and CEO

Daniel C. Topolinsky
Executive Vice President,
Exploration and Development

Greg W. Kist
Vice President, Investor
Relations and Marketing

Art A. MacNichol
Vice President, Finance &
Chief Financial Officer

Gary A. Miller
Vice President, Operations

Cindy R. Rutherford
Vice President, Land

James L. Stannard
Vice President, Engineering

Gary R. Bugeaud
Secretary

CORPORATE OFFICE

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TRUSTEE AND TRANSFER AGENT

Computershare Trust Company
of Canada
Calgary, Alberta

STOCK EXCHANGE

The Toronto Stock Exchange
trading symbols:
Common Shares- PRQ
6.25% Debentures – PRQ.DB.A
5.25% Debentures – PRQ.DB.B

SOLICITOR

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

AUDITOR

KPMG LLP
Calgary, Alberta

CONSULTING ENGINEERS

GLJ Petroleum Consultants
Calgary, Alberta

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Progress Energy Resources Corp.
Annual Financial Statements
2010

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

The following discussion and analysis of financial results, dated February 24, 2011, should be read in conjunction with Progress Energy Resources Corp. ("Progress" or the "Company") accompanying audited consolidated financial statements and related notes for the years ended December 31, 2010 and 2009. The financial data presented has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The reporting and the measurement currency is the Canadian dollar.

Non-GAAP Measurements Management uses the industry benchmark operating netback to analyze financial and operating performance. This benchmark as presented does not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures for other entities. Operating netback is used by research analysts to compare operating performance and a company's ability to maintain current operations and meet the forecasted capital program. Operating netback is the net result of the Company's revenue net of realized gains and losses on financial instruments, and royalty, operating and transportation expenses as found in the accompanying year end financial statements.

Forward-Looking Statements Certain information regarding Progress set forth in this document, including Management's assessment of the Company's future plans and operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward looking statements. Such statements represent Progress' internal projections, estimates or beliefs concerning, among other things, an outlook on the estimated amounts and timing of capital investment, anticipated future debt, revenues or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. These statements are only predictions and actual events or results may differ materially. Although Progress believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause Progress' actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, Progress.

In particular, forward-looking statements included in this MD&A include, but are not limited to, statements with respect to: the closing of the financings described herein, the net proceeds to be received and the use of proceeds therefrom including the 2011 expanded capital program and the acceleration of the 2011 Montney drilling program; the size of, and future net revenues from, crude oil and natural gas reserves; future prospects; the focus of and timing of capital expenditures; expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development; access to debt and equity markets; projections of market prices and costs and the related sensitivity of dividends; the performance characteristics of the Company's crude oil and natural gas properties; crude oil and natural gas production levels and product mix; Progress' future operating and financial results; capital investment programs; supply and demand for crude oil and natural gas; future royalty rates; drilling, development and completion plans and the results therefrom; future land expiries; dispositions and joint venture arrangements; amount of operating, transportation and general and administrative expenses; treatment under governmental regulatory regimes and tax laws; estimated tax pool balances; payment of future dividends and anticipated IFRS elections and the impact of the conversion to IFRS. In addition, statements relating to "reserves" or "resources" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the Company's control, including the impact of general economic conditions; volatility in market prices for crude oil and natural gas; industry conditions; volatility of commodity prices; currency fluctuation; imprecision of reserve estimates; liabilities inherent in crude oil and natural gas operations; environmental risks; incorrect assessments of the value of acquisitions and exploration and development programs; competition from other producers; the lack of availability of qualified personnel or management; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; stock market volatility; ability to access sufficient capital from internal and external sources; the satisfaction of the closing conditions of the financing; completion of the financing on the timing planned and the receipt of applicable approvals;

and the other risks considered under "Risk Factors" in our annual information form for the year ended December 31, 2010 which is available on www.sedar.com.

With respect to forward-looking statements contained in this MD&A, Progress has made assumptions regarding: current commodity prices and royalty regimes; availability of skilled labour; North American sulphur prices; timing and amount of capital expenditures; future exchange rates; the price of oil and natural gas; the impact of increasing competition; conditions in general economic and financial markets; availability of drilling and related equipment; effects of regulation by governmental agencies; royalty rates and future operating costs.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide shareholders with a more complete perspective on Progress' future operations and such information may not be appropriate for other purposes. Progress' actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that the Company will derive there from. Readers are cautioned that the foregoing lists of factors are not exhaustive. These forward-looking statements are made as of the date of this MD&A and the Company disclaim any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

PLAN OF ARRANGEMENT – CREATION OF PROGRESS ENERGY RESOURCES CORP.

On January 15, 2009 Progress Energy Trust (the "Trust") and ProEx Energy Ltd. ("ProEx") completed a plan of arrangement (the "Arrangement") whereby ProEx acquired all of the issued and outstanding units of the Trust and the exchangeable shares of the Trust's subsidiary, Progress Energy Ltd. and changed its name to Progress Energy Resources Corp. The Trust unitholders received 0.8125 of a ProEx share for each trust unit held and the holders of exchangeable shares received 0.8125 of a ProEx share for each unit they were entitled to by multiplying the exchangeable shares held by the exchange ratio on January 15, 2009 of 1.62092.

Upon completion of the Arrangement, the Trust was liquidated and dissolved and the Company received all of the assets and assumed all of the liabilities of the Trust, including the 6.75 percent and 6.25 percent convertible unsecured subordinated debentures of the Trust. The Company is now a mid-sized natural gas focused exploration, development and production company.

As a result of the Arrangement, the former owners of the Trust owned approximately 61 percent of the Company and the former owners of ProEx owned approximately 39 percent. In accordance with Canadian GAAP, the Arrangement was a reverse takeover, with the Trust deemed to be the acquirer of ProEx (the "ProEx Acquisition" or "Reverse Takeover"). Consequently, the consolidated financial statements for 2009 reflect the financial position, results of operations and cash flows of the Company as if the Company had always carried on the business formerly carried on by the Trust. The year ended December 31, 2009 reflects the results of operations and cash flows of the Trust and its subsidiaries for the period January 1 to January 14, 2009 and the results of operations and cash flows of the Company and its subsidiaries for the period January 15 to December 31, 2009.

The total consideration of the Reverse Takeover was approximately \$663.5 million based on the notional issuance of 73,479,481 Trust units at \$9.26 per Trust unit using the weighted average trading price of the Trust for a period before and after the announcement date of November 17, 2008, adjusted for the effect of normal issue costs, and estimated transaction costs and other costs of \$10.3 million. The ProEx Acquisition added approximately 11,500 barrels of oil equivalent ("boe") per day of production and approximately 525,000 net acres of undeveloped land.

Foothills Acquisition

On March 31, 2010, the Company acquired certain northeast British Columbia Foothills assets for \$389.2 million including \$2.1 million in transaction costs (the "Foothills Acquisition"). The Foothills Acquisition assets are immediately adjacent to the Company's producing assets in the Town, Bubbles and Blueberry/Beg areas and represent a strategic fit with the Company's existing northeast British Columbia Foothills properties. The assets included production of approximately 7,300 boe per day, 91 percent natural gas, and approximately 188,000 net acres of undeveloped land.

To finance the Foothills Acquisition and a portion of the Company's 2010 capital investment program, the Company issued 47,630,000 common shares at \$12.60 per share for total gross proceeds of \$600.1 million (\$588.8 million net of issue costs of \$11.3 million). The share issuance was comprised of a \$350 million subscription receipt private placement with the Canada Pension Plan Investment Board ("CPPIB") and a concurrent \$250 million subscription receipt bought-deal financing through a syndicate of underwriters. Each subscription receipt represented the right to receive one common share of Progress, without the payment of any additional consideration, on the closing of the Foothills Acquisition which occurred on March 31, 2010.

The private placement with CPPIB contains certain conditions in regards to their investment and ongoing relationship with Progress including:

- Lockup provision - requires CPPIB to not sell any shares acquired in the private placement for an 18 month period following the closing date and CPPIB shall elect to have the shares participate in the dividend reinvestment program.
- Governance - so long as CPPIB owns greater than 12.5 percent of the outstanding common shares it shall have the right to nominate one individual to be a director of Progress. If CPPIB owns greater than 10 percent of the outstanding common shares, Progress shall discuss with CPPIB any proposed transaction for which the Company will require equity financing before implementing such transaction.
- Registration rights – if CPPIB holds 10 percent or more of the outstanding common shares, they shall have the right to require Progress at CPPIB's expense, to prepare, file and obtain receipt for a final prospectus offering for the sale of any portion of the common shares held by CPPIB.
- After 18 months from the closing of the private placement, CPPIB shall have the right to include common shares owned by CPPIB in a prospectus offering to the extent of 15 percent of such offering.
- Right to participate in future offerings – so long as CPPIB owns greater than 10 percent of the outstanding common shares, CPPIB shall have the pre-emptive right to participate in future offerings up to CPPIB's pro-rata ownership interest immediately prior to the offering.

CPPIB, having greater than 12.5 percent of the outstanding common shares, nominated R. Scott Lawrence, Vice President – Head of Relationship Investments, Public Market Investments to the Progress Board of Directors. The Progress Board of Directors, upon review of Mr. Lawrence's qualifications by the Corporate Governance and Nominating Committee, appointed Mr. Lawrence to the Board on October 12, 2010.

Operations of the Company for 2011

Capital Investment Program – On February 14, 2011, Progress announced that it was expanding its 2011 capital program from \$250 million to \$350 million. Under the expanded program the Company intends to accelerate the number of Montney wells to be drilled in 2011 to approximately 30 to 35 horizontal wells. In connection with the expansion of the capital program, Progress has entered into an agreement with a syndicate of underwriters pursuant to which the underwriters have agreed to purchase on a bought deal basis 14,400,000 common shares at \$13.90 per share for gross proceeds of \$200.2 million, as well as \$200 million principal amount of 5.75 percent convertible unsecured subordinated debentures (see "*Share Capital*" section below).

Asset Dispositions/Joint Ventures - Progress is undertaking an asset disposition program to further focus its asset base in the Deep Basin of northwest Alberta and the Foothills of northeast British Columbia. Assets representing less than 10 percent of the Company's production base or approximately 1,500 to 3,000 boe per day could be divested in 2011. Progress is also evaluating various joint venture alternatives on portions of its land base in the North Montney fairway.

Production - Based on a \$350 million capital program in 2011, Progress expects production to average approximately 45,000 to 46,000 boe per day, which includes a scheduled plant turnaround at the third-party owned McMahon natural gas processing facility in northeast British Columbia in the second quarter that is forecasted to impact average annual production by approximately 1,200 boe per day. Progress expects 2011 exit production to be 50,000 to 52,000 boe per day, an increase of approximately 15 percent from the 2010 exit production of approximately 45,000 boe per day. The production mix for 2011 is expected to be 89 percent natural gas, four percent crude oil and seven percent natural gas liquids.

Royalties - Management of the Company anticipates the average royalty rate for 2011, based on current commodity prices and legislation, to average approximately 15 percent of petroleum and natural gas revenue.

Operating Expense - Management of the Company anticipates operating expenses for 2011 to be between \$5.75 to \$6.00 per boe.

Transportation Expense - Transportation expense of the Company for 2011 is expected to average approximately \$3.25 to \$3.40 per boe, consistent with 2010.

General and Administrative Expenses - Management anticipates general and administrative expenses for the Company to average approximately \$1.00 per boe in 2011.

Share capital - Outstanding as at February 23, 2011 are the following:

	Shares outstanding or issuable
Common shares	215,446,561
Convertible debentures	14,236,111
Stock options	7,246,734
Restricted Unit Awards	175,787
Performance Unit Awards	519,975
Performance units from the Trust	379,966
LTI component from the Trust	10,676

Subsequent to the year ended December 31, 2010, Progress announced it has entered into an agreement with a syndicate of underwriters pursuant to which the underwriters have agreed to purchase on a bought deal basis 14,400,000 common shares at \$13.90 per share for gross proceeds of \$200.2 million, as well as \$200 million principal amount of 5.75 percent convertible unsecured subordinated debentures (the "5.75 percent debentures") for total combined gross proceeds of \$400.2 million (\$385.3 million net of anticipated issue costs). Subject to adjustment in certain circumstances, each debenture may be converted into common shares at the option of the holder at a conversion price of \$20.85 per common share. The 5.75 percent debentures will pay interest semi-annually on June 30 and December 31 and will mature on June 30, 2016. The offering is expected to be completed on March 7, 2011 and is subject to Progress receiving all necessary regulatory approvals and therefore the impact of these debentures has not been reflected in the table above (refer to "*Liquidity and Capital Resources*" for further information).

Sensitivities - Based on the above assumptions, the following sensitivities are provided to demonstrate the impact on net earnings of changes in commodity prices, production and interest rates.

(\$ millions)	Estimated Effect on 2011 Cash Flow ⁽¹⁾	Estimated Effect on 2011 Net Earnings ⁽¹⁾
Change of \$0.25 per mcf in the price of natural gas	19.3	14.2
Change of \$5.00 per barrel in the price of crude oil	5.0	3.7
Change of 5,000 mcf/d in natural gas production	3.8	(1.1)
Change of 500 bbls/d in crude oil production	11.8	6.3
Change of 1% in prime interest rates	1.4	1.0

⁽¹⁾ These sensitivities reflect prices, production, and interest rates within the context of current market rates. The sensitivities above will no longer apply above the ceiling or below the floor price limits set by existing natural gas financial contracts.

DESCRIPTION OF BUSINESS

Progress is a Calgary based, natural gas focused Company. The principal undertaking of the Company is to explore for, develop and hold interests in petroleum and natural gas properties. Primary operating regions include the Deep Basin of northwest Alberta and the northeast British Columbia Foothills regions. The common shares of the Company trade on the Toronto Stock Exchange ("TSX") under the symbol PRQ. The 6.25 percent, and 5.25 percent convertible unsecured subordinated debentures trade on the TSX under the symbols PRQ.DB.A, and PRQ.DB.B, respectively.

OPERATING SUMMARY

In accordance with Canadian industry practice, production volumes, reserve volumes and revenues are reported on a Company interest basis (working interest plus royalty interest), before deduction of Crown and other royalties, unless otherwise indicated. The Company's results of operations are dependent on production volumes of natural gas, crude oil and natural gas liquids and the prices received for this production. Prices for these commodities have shown significant volatility during recent years and are determined by supply and demand factors, including weather, general economic conditions and changes in the Canadian/United States ("US") currency exchange rate.

In this MD&A, production and reserves information may be presented on a "barrel of oil equivalent" or "boe" basis with six thousand cubic feet ("mcf") of natural gas being equivalent to one barrel ("bbl") of crude oil or natural gas liquids. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Production

	Fourth Quarter of 2010	Fourth Quarter of 2009	2010	2009	Change
Daily Production					
Natural gas (<i>mcf/d</i>)	225,594	161,497	213,659	166,939	28%
Crude oil (<i>bbls/d</i>)	2,127	1,882	1,957	2,008	(3%)
Natural gas liquids (<i>bbls/d</i>)	2,974	2,592	3,365	2,284	47%
Total daily production (<i>boe/d</i>)	42,700	31,390	40,932	32,115	27%
Sulphur sales (<i>tons/d</i>)	98	97	94	85	11%
Natural gas as a % of total production	88%	86%	87%	87%	

Production in 2010 averaged 40,932 boe per day consisting of 213,659 mcf per day of natural gas, 1,957 bbls per day of crude oil and 3,365 bbls per day of natural gas liquids. This production was 27 percent higher than 2009 with production averaging 32,115 boe per day as a result of the Foothills Acquisition and successful drilling results. The increase in production was also achieved despite the sale of approximately 1,500 boe per day from the Company's Central Alberta properties on June 30, 2010. For 2010 Progress had set its capital investment program at approximately \$350 million with a primary focus on the Montney and Nikanassin plays in the Foothills and Deep Basin regions, respectively. Based on this budgeted capital program, Progress had estimated production for 2010 to average approximately 40,000 to 42,000 boe per day. The actual production for 2010 was consistent with the Company's expectations even though the budget did not include the impact of the Central Alberta properties disposition. The Company's production portfolio in 2010 was weighted 87 percent to natural gas, five percent to crude oil and eight percent to natural gas liquids ("NGL").

Natural gas production increased 28 percent in 2010 to 213,659 mcf per day compared to 166,939 mcf per day in 2009. The increase was due to the Foothills Acquisition and successful drilling results in the Foothills of British Columbia and the Deep Basin of Alberta.

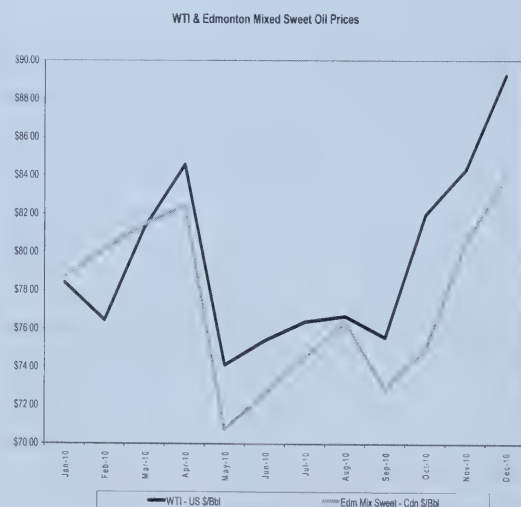
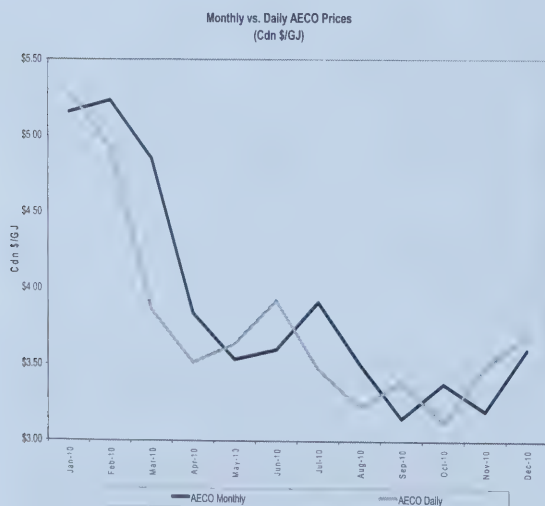
Crude oil and NGL production in 2010 of 5,322 bbls per day was higher than 2009 of 4,292 bbls per day as a result of higher NGL production. In the Foothills region, the Company's growing Montney production has averaged 20 barrels of natural gas liquids per 1,000 mcf of natural gas produced and Deep Basin production added during the year was processed, whenever possible, through a "deep cut" facility in the Wapiti area resulting in greater NGL recoveries.

The Company's 2010 fourth quarter production averaged 42,700 boe per day, comprised of 225,594 mcf per day of natural gas, 2,127 bbls per day of crude oil and NGL production of 2,974 bbls per day. This was higher than the fourth quarter of 2009 which averaged 31,390 boe per day, comprised of 161,497 mcf per day of natural gas, 1,882 bbls per day of crude oil and NGL production of 2,592 bbls per day. The increase was a result of the Foothills Acquisition and successful drilling as well as the Company shutting-in approximately 5,000 boe per day of natural gas production in October 2009 and delaying the start-up of new production in late 2009 until November 2009 due to weak natural gas prices during the period. For a full analysis of fourth quarter production refer to the *"Fourth Quarter Analysis"* section in this MD&A.

Production by Region

(boe/d)	Fourth Quarter 2010	Fourth Quarter 2009	Change	2010	2009	Change
Foothills	25,435	14,752	72%	21,708	15,368	41%
Fort St. John Plains	1,663	1,939	(14%)	1,806	2,036	(11%)
Other	556	623	(11%)	594	736	(19%)
Total British Columbia	27,654	17,314	60%	24,108	18,140	33%
Deep Basin	14,531	12,076	20%	15,620	11,924	31%
Central Alberta	-	1,398	(100%)	655	1,514	(57%)
Other	515	602	(14%)	549	537	2%
Total Alberta	15,046	14,076	7%	16,824	13,975	20%
Total daily production	42,700	31,390	36%	40,932	32,115	27%

Pricing and Risk Management



Natural Gas Markets

Progress' realized natural gas price for the year ended December 31, 2010 was consistent with the same period in 2009 of \$4.13 per mcf (\$3.60 per gigajoule ("gj")). The AECO daily index averaged \$3.79 per gj in 2010 (2009 - \$3.74 per gj), the AECO monthly index averaged \$3.91 per gj (2009 - \$3.92 per gj) and the Station #2 daily index averaged \$3.58 per gj (2009 - \$3.65 per gj). Progress markets its natural gas at a mix of daily and monthly pricing. The higher realization on a mcf basis reflects the higher heat content of Progress' natural gas stream.

Natural gas prices in western Canada remained unchanged in 2010 as compared to 2009. Calendar 2010 average AECO monthly index was \$3.91 per gj compared to calendar 2009 average AECO monthly index of \$3.92 per gj. AECO traded at a daily index high of \$5.29 per gj in January 2010 and traded at a daily index low of \$3.13 per gj in October 2010. The natural gas supply and demand balance continues to favor supply with gas production remaining strong throughout most of North America. Gas production did decline in Alberta, however, as producers directed capital investment programs towards oil opportunities over conventional gas opportunities. Overall, the economy in North America continued to recover throughout 2010 but not sufficiently enough to impact overall North American gas storage levels which reached all-time highs in November 2010. In aggregate, natural gas prices remain under pressure as gas directed drilling in shale gas plays remains strong and supporting natural gas production at record levels.

Oil Markets

Progress' realized prices for its liquids streams for the year ended December 31, 2010 were \$73.24 per bbl (2009 - \$59.78 per bbl) for crude oil and \$55.10 per bbl (2009 - \$42.05 per bbl) for natural gas liquids.

Crude prices slipped just below US\$70 per bbl in the second quarter of 2010 but recovered to reach a high of over US\$90 per bbl in December. A weaker pace of recovery in economic activity in North America was more than offset by expectations of growing demand in Asia. China continues to show relatively strong economic growth which industry observers believe will continue to positively impact crude prices. Crude oil prices concluded 2010 with WTI trading at US\$91.38 per bbl for a net increase of US\$9.87 per bbl from the US\$81.51 per bbl where it had traded at the start of the year.

Commodity Prices

	2010	2009	Change
Average Benchmark Prices			
Natural gas - AECO (daily) (\$/gj)	3.79	3.74	1%
Natural gas - AECO (monthly) (\$/gj)	3.91	3.92	-
Natural gas - Station #2 (daily) (\$/gj)	3.58	3.65	(2%)
Crude oil - WTI (US\$/bbl)	79.53	61.80	29%
Crude oil - Edmonton par price (Cdn\$/bbl)	77.43	65.95	17%
Exchange rate - (US\$/Cdn\$)	1.0301	1.1415	(10%)

Average Realized Prices			
Natural gas (\$/mcf)	4.13	4.13	-
Crude oil (\$/bbl)	73.24	59.78	23%
Natural gas liquids (\$/bbl)	55.10	42.05	31%
Sulphur - net (\$/ton)	21.41	(10.91)	296%

Natural Gas Pricing

US natural gas prices are typically referenced off NYMEX at Henry Hub, Louisiana while Alberta natural gas is referenced off the AECO Hub and British Columbia natural gas off of Sumas Washington or Station #2 market centers. Virtually all of Progress' natural gas was sold at market prices at one of the Alberta or British Columbia hubs.

Natural Gas Production and Prices by Province

	2010		2009	
	mcf/d	\$/mcf	mcf/d	\$/mcf
Alberta	82,130	4.35	67,022	4.21
British Columbia	131,529	3.99	99,917	4.08
Total production and average sales price	213,659	4.13	166,939	4.13

Alberta Natural Gas Prices

	2010	2009
NYMEX (US\$/mmbtu 12 month average – last 3 days)	4.44	4.03
Less: AECO basis differential to Henry Hub (US\$/mmbtu)	(0.55)	(0.55)
AECO (US\$/mmbtu)	3.89	3.48
Average exchange rate	1.0301	1.1415
AECO price (Cdn\$/mmbtu daily average)	4.01	3.97
Premium: Progress realized price vs spot ⁽¹⁾	0.34	0.24
Progress average realized Alberta price (Cdn\$/mcf)	4.35	4.21

(1) Includes the conversion of mmbtu's to mcf.

British Columbia Natural Gas Prices

	2010	2009
NYMEX (US\$/mmbtu 12 month average – last 3 Days)	4.44	4.03
Less: Station #2 basis differential to Henry Hub (US\$/mmbtu)	(0.77)	(0.66)
Station #2 (US\$/mmbtu)	3.67	3.37
Average exchange rate	1.0301	1.1415
Station #2 price (Cdn\$/ mmbtu daily average)	3.78	3.85
Premium: Progress realized price vs. spot ⁽¹⁾	0.21	0.23
Progress average realized British Columbia price (Cdn\$/mcf)	3.99	4.08

(1) Includes the conversion of mmbtu's to mcf.

Price Risk Management

The Company, from time to time, may enter into financial contracts for the purpose of protecting its petroleum and natural gas revenue from the volatility of natural gas prices and Canadian to US foreign exchange rates. For the year ended December 31, 2010, the Company's risk management program had a net realized gain of \$16.1 million (2009 - \$18.4 million gain).

At December 31, 2010 the fair value of the financial contracts was an asset of \$3.9 million (2009 - \$2.8 million asset). The following tables summarize the contracts outstanding in respect to financial instruments:

Contracts	Volume	Pricing Point	Differential	Term
Swap – basis hedge ⁽¹⁾	10,000 mmbtu/d	Nymex	(\$0.55)	Jan 01/11 to Dec 31/11
Swap – basis hedge ⁽¹⁾	10,000 mmbtu/d	Nymex	(\$0.53)	Jan 01/11 to Dec 31/11
Swap – basis hedge ⁽¹⁾	10,000 mmbtu/d	Nymex	(\$0.49)	Jan 01/11 to Dec 31/11
Swap – basis hedge ⁽¹⁾	10,000 mmbtu/d	Nymex	(\$0.47)	Jan 01/11 to Dec 31/11

Contracts	Volume	Pricing Point	Strike Price \$/gj	Premium \$/gj	Term
Swap – call spread	5,000 gj/d	AECO	\$3.60-\$4.60	\$0.26	Feb 01/11 to Oct 31/11
Swap – call spread	5,000 gj/d	AECO	\$3.65-\$4.65	\$0.26	Feb 01/11 to Oct 31/11
Swap – call spread ⁽²⁾	5,000 gj/d	AECO	\$3.81-\$4.81	\$0.26	Feb 01/11 to Oct 31/11

Contracts	Volume	Pricing Point	Strike Price \$/gj	Premium \$/gj	Term
Bought put option	25,000 gj/d	AECO	\$6.43	\$1.080	Nov 01/10 to Mar 31/11
Bought put option	5,000 gj/d	AECO	\$3.61	\$0.340	Feb 01/11 to Oct 31/11
Bought put option	5,000 gj/d	AECO	\$3.65	\$0.335	Feb 01/11 to Oct 31/11
Bought put option ⁽²⁾	5,000 gj/d	AECO	\$3.83	\$0.357	Feb 01/11 to Oct 31/11

Contracts	Volume	Pricing Point	Strike Price \$/gj	Term
Sold calls	10,000 gj/d	AECO	\$7.575	Jan 1/11 to Dec 31/11
Sold calls	10,000 gj/d	AECO	\$7.500	Jan 1/11 to Dec 31/11

(1) These contracts were settled subsequent to year-end for net proceeds of \$1.2 million.

(2) Entered into subsequent to December 31, 2010

The change in the fair value of the financial contracts for the year ended December 31, 2010 was a gain of \$1.1 million (2009 - \$11.7 million loss). The gain for 2010 was due to decreasing future natural gas prices.

The Company's hedging activities were conducted pursuant to the Company's Risk Management Policy approved by the Board of Directors. The Risk Management Policy had the following objectives:

- To reduce risk exposure to budgeted annual petroleum and natural gas revenue projections resulting from uncertainty or changes in commodity prices, interest rates or foreign exchange.
- To limit the permissible structures to ensure hedging effectiveness.
- To limit hedging up to a maximum of 50 percent of budgeted annual production before royalties.
- To limit hedging activity to counter-parties which provide sufficient collateral in support of payment or have investment grade credit ratings.

Revenue

Petroleum and natural gas revenue increased 34 percent to \$442.6 million in 2010 from \$330.3 million in 2009 as a result of both higher production and higher crude oil and NGL prices. Production averaged 40,932 boe per day in 2010 compared to 32,115 boe per day in 2009 while realized commodity prices increased five percent to \$29.62 per boe in 2010 from \$28.17 per boe in 2009. Petroleum and natural gas revenue in 2010 consisted of \$321.9 million from natural gas sales, \$52.3 million from crude oil sales and \$67.7 million from NGL sales.

(\$ thousands)	2010	2009	Change
Natural gas sales	321,876	251,782	28%
Crude oil sales	52,317	43,762	20%
Natural gas liquids sales	67,666	35,046	93%
Sulphur sales (net)	733	(333)	-
Petroleum and natural gas revenue	442,592	330,257	34%

(\$ thousands)	Natural Gas	Crude Oil & NGLs	Sulphur	Total
2009 Petroleum and natural gas revenue	251,782	78,808	(333)	330,257
Price variance	(370)	22,263	1,101	22,994
Production variance	70,464	18,912	(35)	89,341
2010 Petroleum and natural gas revenue	321,876	119,983	733	442,592

Revenue by province was as follows:

(\$ thousands)	2010			2009		
	Alberta	British Columbia	Total	Alberta	British Columbia	Total
Natural gas sales	130,303	191,573	321,876	103,059	148,723	251,782
Crude oil sales	22,161	30,156	52,317	21,601	22,161	43,762
Natural gas liquids sales	42,939	24,727	67,666	26,351	8,695	35,046
Sulphur sales (net)	(1)	734	733	(3)	(330)	(333)
Petroleum and natural gas revenue	195,402	247,190	442,592	151,008	179,249	330,257

Royalties

Royalty expense consists of royalties paid to provincial governments, freehold landowners and overriding royalty owners. Royalties increased 61 percent to \$68.3 million in 2010 from \$42.4 million in 2009 due to higher revenues. The Company's average royalty rate in 2010 was 15.4 percent compared to 12.8 percent in 2009 as a result of higher liquids prices.

Progress' operations are in the provinces of Alberta and British Columbia. Beginning in 2009 and continuing into 2010 both the Alberta and British Columbia governments implemented incentives for the energy sector in response to the economic slowdown and to enhance their competitive business climate.

Alberta Royalties

In regards to Progress' operations, the current major incentives in Alberta are:

Five percent royalty rate on first year of production

The Alberta government has implemented a five percent royalty rate on the first year of production on new natural gas and conventional oil wells up to a maximum 500,000 mcf of natural gas or 50,000 bbls of crude oil. This results in a lower royalty expense for Progress on its new wells. This program is now permanent and therefore the benefits will be ongoing.

Deep drilling credit

The Alberta government revised its deep drilling credit to wells deeper than 2,000 metres, compared to 2,500 metres previously. The deep drilling credit is \$625 per metre on wells below 2,000 metres to 3,500 metres. A typical Progress Deep Basin well would qualify for approximately \$0.2 million of deep drilling credits. The credit is collected through a reduction to the royalties paid on that well but cannot reduce the royalty rate below five percent. This credit is treated as a reduction to royalty expense.

Drilling royalty credit

A drilling royalty credit was implemented for new natural gas or conventional oil wells of up to \$200 per metre drilled on crown land for wells spud on or after April 1, 2009 to March 31, 2011. The drilling royalty credit may be reduced depending on the amount of Alberta production on crown lands and how much crown royalties are paid. As at December 31, 2010 approximately \$20.3 million in Alberta drilling credits have been earned and recognized as a reduction to capital spending.

Other recent changes to the Alberta royalty regime include that the maximum royalty rate for natural gas at higher price levels will be 36 percent as opposed to 50 percent that was established previously.

British Columbia Royalties

In regards to Progress' operations, the current major incentives in British Columbia are:

Two percent royalty on first year of production

The two percent royalty relief program is a one year, two percent royalty rate for all natural gas wells drilled in a 10 month window, spud on or after September 1, 2009 to June 30, 2010. The two percent royalty will apply to the first 12 months of production and production must commence before December 31, 2010. This results in a lower royalty expense for Progress on its new wells.

Deep royalty credit program

The current formula based deep royalty credit program includes horizontal wells drilled between 1,900 and 2,300 metres. The program has no expiration date. To date Progress has earned an average of \$2.1 million per well of deep royalty credits on each of its Montney horizontal wells. As at December 31, 2010 approximately \$3.4 million in deep royalty credits were offset against 2010 royalty expense with \$40.2 million remaining to be recognized as a future reduction to royalty expense. The two percent royalty relief program and the deep royalty credit program will co-exist but a company will only benefit from one program at a time. The deep royalty credit will apply first. If it is exhausted before the first 12 months of production, the two percent royalty will be in effect for the

remainder of the first 12 months. If the deep royalty credit is not exhausted before the first 12 months, the two percent royalty program will not apply. The deep royalty credit is treated as a reduction to royalty expense.

Summer drilling credit

The province of British Columbia has a summer drilling program in place resulting in a credit of 10 percent of drilling and completion costs up to a maximum of \$100,000 per well for wells drilled between March 31 and December 1 of each year. This credit is treated as a reduction to capital expenditures.

<i>(\$ thousands)</i>	2010	2009
Crown	60,091	36,362
Freehold and overriding	8,189	6,017
Total royalty expense	68,280	42,379
Royalties <i>(\$/boe)</i>	4.57	3.62
Average royalty rate (%)	15.4	12.8

The following table provides a break down of royalties by product and province:

<i>(\$ thousands, except where otherwise indicated)</i>	2010			2009		
	Alberta	British Columbia	Total	Alberta	British Columbia	Total
Natural gas royalties	16,434	22,450	38,884	7,328	15,388	22,716
\$/boe	3.29	2.81	2.99	1.80	2.53	2.24
Average natural gas royalty rate (%)	12.6	11.7	12.1	7.1	10.3	9.0
Crude oil royalties	6,633	5,038	11,671	4,666	3,986	8,652
\$/boe	21.91	12.26	16.34	12.58	11.04	11.80
Average crude oil royalty rate (%)	29.9	16.7	22.3	21.6	18.0	19.8
NGL royalties	13,420	4,305	17,725	9,532	1,479	11,011
\$/boe	15.84	11.31	14.43	14.37	8.68	13.21
Average NGL royalty rate (%)	31.3	17.4	26.2	36.2	17.0	31.4
Total	36,487	31,793	68,280	21,526	20,853	42,379

Operating Expenses

Operating expenses increased 14 percent to \$90.9 million in 2010 compared to \$79.9 million in 2009. The increase was due to higher production as a result of the Foothills Acquisition and successful drilling. On a boe basis, operating expenses decreased 11 percent for 2010 to \$6.08 compared to \$6.82 in 2009 as a result of efficiencies realized, drilling operations being focused in low operating cost areas and the sale of high operating cost assets in the second quarter of 2010.

<i>(\$ thousands, except where otherwise indicated)</i>	2010	2009	Change
Operating expenses - total	90,864	79,912	14%
\$/boe	6.08	6.82	(11%)
Operating expenses - natural gas properties	78,507	67,317	17%
\$/boe	5.55	6.20	(10%)
Operating expenses - crude oil properties	12,357	12,595	(2%)
\$/boe	15.73	14.57	8%

Transportation Expenses

Transportation expenses increased 33 percent to \$47.7 million in 2010 compared to \$35.9 million in 2009 as a result of higher production. On a boe basis, transportation expenses in 2010 increased four percent to \$3.19 compared to \$3.07 in 2009 as the Company's growth in British Columbia outpaced its growth in Alberta due primarily to the Foothills Acquisition and the Central Alberta disposition. In British Columbia producers pay an all-in charge for regulated gathering, processing and transmission fees enabling producers to avoid facility construction. This all-in charge is included in transportation expenses.

Operating Netbacks

Although many wells produce both crude oil and natural gas, a well is categorized as a natural gas well or an oil well based upon the higher proportion of natural gas or crude oil production. The following table summarizes the operating netbacks for natural gas properties, oil properties and all properties combined:

	2010	2009
Natural Gas Properties (\$/mcf)		
Sales price	4.65	4.41
Realized gain on financial instruments	0.19	0.28
Royalties	(0.65)	(0.52)
Operating expenses	(0.92)	(1.03)
Transportation expenses	(0.54)	(0.53)
Operating netback – natural gas properties	2.73	2.61
Oil Properties (\$/bbl)		
Sales Price	60.12	49.93
Royalties	(16.11)	(9.92)
Operating expenses	(15.73)	(14.57)
Transportation expenses	(1.95)	(1.82)
Operating netback – oil properties	26.33	23.62
All Properties (\$/boe)		
Sales Price ⁽¹⁾	29.62	28.17
Realized gain on financial instruments	1.08	1.57
Royalties	(4.57)	(3.62)
Operating expenses	(6.08)	(6.82)
Transportation expenses	(3.19)	(3.07)
Operating netback – all properties	16.86	16.23

(1) Includes sulphur net revenue with no associated production as no conversion exists for tons to boe.

General and Administrative Expenses

General and administrative expenses ("G&A") net of overhead recoveries on operated properties, increased five percent to \$14.2 million (\$0.95 per boe) in 2010 compared to \$13.6 million (\$1.16 per boe) in 2009. The increase in gross G&A for 2010 was largely offset by higher operator recoveries for the year. The magnitude of operator recoveries is a function of activity levels and the degree to which operations are operated by the Company. Progress operated 92 percent of its production and the majority of the drilling and construction activity. Operator recoveries were \$10.6 million for 2010 compared to \$6.9 million in 2009, the increase being primarily a result of higher capital expenditures in 2010 compared to 2009.

The Company capitalized approximately \$2.0 million of G&A in 2010 and \$2.1 million in 2009. These costs represent geological and geophysical employee compensation.

(\$ thousands)	2010	2009
Gross G&A	26,881	23,314
Technical services fees from ProEx ⁽¹⁾	-	(746)
Operator recoveries	(10,609)	(6,874)
Capitalized expenses	(2,030)	(2,090)
Total G&A expense	14,242	13,604
G&A (\$/boe)	0.95	1.16

(1) The Technical Services Agreement with ProEx and the Trust was terminated on January 15, 2009 upon completion of the Arrangement.

Stock Based Compensation Expenses

Stock Options, Restricted Units and Performance Units

The Company has established a stock based compensation plan (the “Plan”) comprised of a Stock Option Plan, as well as a Share Unit Plan which includes both Restricted Unit Awards and Performance Unit Awards. Unless otherwise approved by the shareholders, the Company may grant up to a maximum of 1,700,000 common shares pursuant to the Share Unit Plan. The Restricted Unit Awards are whole share awards that entitle the holder to that number of shares at the end of the vesting period. Performance Unit Awards are similar to the Restricted Unit Awards however, a performance factor is applied to the grant on the vesting date. Both the Restricted Unit Awards and Performance Unit Awards vest at the end of a three year period and include accumulated dividends paid over the three year period, however for new employees, their initial grant will vest 20 percent on the first anniversary date, 30 percent on the second anniversary and 50 percent on the third anniversary. Under the Stock Option Plan, unless otherwise approved by the shareholders, the Company may grant up to a maximum of 10,000,000 stock options. The stock options granted under the Stock Option Plan prior to 2011 vest one third in each of the second, third and fourth year anniversary dates from the date of grant. Stock options granted in 2011 will vest one third in each of the first, second and third year anniversary dates from the date of grant. The options expire in five years from the date of grant.

Grants that were outstanding from the Trust and ProEx, which include performance units and units granted under the Long Term Incentive Component (“LTI”) as well as stock options of ProEx, will continue until their original vesting dates.

Long Term Incentive Component of the Trust

Awards granted under the LTI component of the Trust’s compensation plan vest over three years with 40 percent vesting on the second anniversary of the date of grant and 60 percent vesting on the third anniversary of the date of grant. An additional 15 percent grant will be paid if the holder holds the common shares they receive on the second anniversary date for one additional year. For the year ended December 31, 2010, 104,348 common shares were issued to settle LTI amounts that vested. This includes the 15 percent grant that was paid to LTI holders that held the shares they received on the second anniversary date for one additional year. This resulted in an additional 18,189 common shares being issued by the Company. As at December 31, 2010 12,960 common shares remain outstanding under the LTI component. The total compensation cost of the LTI component was \$3.0 million of which \$2.8 million was recognized through stock based compensation expense and \$0.2 million was capitalized over the vesting period.

Performance Units of the Trust

The performance units granted by the Trust vest at the end of a three year performance period at which time they will be converted to common shares, or the cash equivalent, and include the accumulated distributions of the Trust and accumulated dividends of the Company over the three year period. For new employees, their initial grant will vest 20 percent on the first anniversary date, 30 percent on the second anniversary and 50 percent on the third anniversary. The actual number of common shares paid is dependent upon a performance factor that is determined based on the Company’s performance relative to its peers and ranges from 0.5 to 1.5 times the initial grant, except for performance units granted to the Trust’s executives effective July 2, 2007 and 2008 which can range from 0 to 3 times. Payment may be in the form of cash or common shares, at the Company’s option. Management anticipates, at the end of the performance period, accumulated distributions and dividends will be paid in cash and common shares will be paid from treasury. Actual performance factors will not be determined until the end of the three year performance periods.

For the year ended December 31, 2010, stock based compensation expense decreased four percent to \$11.1 million (\$0.74 per boe) compared to \$11.6 million (\$0.99 per boe) for the same period in 2009. The decrease was due to the settlement on July 1, 2010 of the performance units granted in 2007 from the Trust.

As at December 31, 2010, there were 5,951,867 stock options outstanding. This includes 4,748,000 stock options that were granted under the Stock Option Plan and 1,203,867 stock options granted by ProEx prior to the Arrangement that will continue until their original expiry date or until they are exercised or forfeited.

Subsequent to year-end an additional grant, under the existing Plan, was approved and 1,413,367 options at a price of \$12.36 were granted in January 2011 to officers and employees of the Company. Options granted have a term of five years until expiry and vest one third in each of the first, second and third year anniversary dates from the date of grant. The exercise price of each option equals the 5-day weighted average market price of the Company's common shares immediately preceding the date of grant.

The following tables summarize the activity for the year ended December 31, 2010 and 2009 for the stock options, restricted unit awards, performance unit awards, performance units of the Trust and the units under the LTI component of the Trust.

Stock Options	Number of options	Weighted average exercise price
Balance, beginning of year	5,872,533	11.93
Granted	281,000	12.39
Forfeited	(145,332)	12.39
Expired	(18,000)	15.46
Exercised	(38,334)	11.02
Balance, end of year	5,951,867	11.93

Restricted Unit Awards	2010	2009
Balance, beginning of year	93,259	-
Granted	88,265	93,259
Settled	(950)	-
Forfeited	(1,175)	-
Balance, end of year	179,399	93,259

Vesting Date		
2011	5,936	-
2012	87,973	93,259
2013	85,490	-
Total	179,399	93,259

Performance Unit Awards	2010	2009
Balance, beginning of year	259,950	-
Granted	281,050	259,950
Settled	(2,790)	-
Forfeited	(14,635)	-
Balance, end of year	523,575	259,950

Vesting Date		
2011	8,120	-
2012	251,217	259,950
2013	264,238	-
Total	523,575	259,950

Performance Units of the Trust⁽¹⁾	2010	2009
Balance, beginning of year	717,718	1,087,247
Granted	-	-
Performance factor adjustment ⁽²⁾	167,639	144,543
Settled ⁽²⁾	(492,027)	(450,180)
Forfeited	(11,945)	(63,892)
Balance, end of year	381,385	717,718

Vesting Date		
2010 ⁽³⁾	-	319,373
2011	381,385	398,345
Total	381,385	717,718

(1) All amounts have been adjusted to reflect the ratio of 0.8125 of a common share for each trust unit as specified in the Arrangement.

(2) For both 2010 and 2009, the performance units were settled at a performance factor of 1.5 times resulting in the issuance of an additional 167,639 common shares and 144,543 common shares, respectively.

(3) Using the current anticipated performance factor of 1.5 times, 196,219 additional common shares will be issued on the vesting of the performance units granted in 2008.

Units under LTI Component⁽¹⁾	2010	2009
Balance, beginning of year	100,956	161,284
Additional grant ⁽²⁾	18,189	-
Settled	(104,348)	(53,719)
Forfeited	(1,837)	(6,609)
Balance, end of year	12,960	100,956

Vesting Date		
2010	-	86,993
2011	12,960	13,963
Total ⁽²⁾	12,960	100,956

(1) All amounts have been adjusted to reflect the ratio of 0.8125 of a common share for each trust unit as specified in the Arrangement.

(2) An additional 15 percent grant, resulting in the issuance of 18,189 common shares, was paid to LTI holders that held the shares they received on the second anniversary date for one additional year. For the remaining units under the LTI this could result in an additional 3,533 common shares being issued by the Company.

Interest and Financing Expenses

Interest and financing expenses in 2010 increased 38 percent to \$39.1 million compared to \$28.4 million in 2009. The increase was due to higher interest rates, as well as the interest, higher accretion charge and amortization of issue costs of the 5.25 percent convertible unsecured debentures as compared to the same period in 2009. The effective interest rate on bank debt for the year ended December 31, 2010 of 5.5 percent is higher than the 3.7 percent for the same period in 2009 due to higher unutilized fees paid regarding the larger unutilized portion of the credit facility as a result of the closing of the Foothills Acquisition and related financing on March 31, 2010.

Debenture interest, accretion and amortized issue costs relate to three debenture issues; the 6.75 percent debentures issued on February 2, 2005, the 6.25 percent debentures issued on August 22, 2006, and the 5.25 percent debentures issued on October 23, 2009 (the "Debentures"). The increase in Debenture interest, accretion and amortized issue costs in 2010 is the result of a full years charge on the \$200 million principal amount of 5.25 percent debentures. This was offset slightly by the repayment of the 6.75 percent debentures on June 30, 2010. For more information regarding the Debentures, see the "Liquidity and Capital Resources" section below.

(\$ thousands)	2010	2009
Interest on bank debt	13,818	14,261
Interest on Debentures	17,044	10,423
Amortization of Debenture issue costs	2,550	1,422
Accretion on debt portion of Debentures ⁽¹⁾	5,677	2,315
Total interest and financing expense	39,089	28,421
Interest and financing expense (\$/boe)	2.62	2.42
Average bank debt outstanding	249,869	388,433
Average bank debt interest rate (%) ⁽²⁾	5.5	3.7
Average bank prime lending rate (%)	2.6	2.4

(1) Under Canadian GAAP, the fair value of the conversion feature of the Debentures is classified as equity and the remainder is classified as debt. Over the term of the Debentures, the debt portion will accrete up to the principal balance at maturity with the charge going to interest and financing expenses.

(2) The average bank debt interest rate for the year ended December 31, 2010, after excluding fees paid in regards to the unutilized portion of the credit facility of \$3.0 million was 4.3 percent.

Depletion, Depreciation and Accretion

Depletion and depreciation of property, plant and equipment and the accretion of the asset retirement obligations ("DD&A") increased 19 percent to \$266.3 million in 2010 compared to \$224.5 million in 2009. The increase is due to the increase to property, plant and equipment as a result of the Foothills Acquisition. This resulted in DD&A per boe in 2010 of \$17.82 compared to \$19.15 recognized in 2009.

(\$ thousands)	2010	2009
Depletion	262,530	220,988
Depreciation	587	593
Accretion of asset retirement obligations	3,183	2,876
Total DD&A expense	266,300	224,457
DD&A (\$/boe)	17.82	19.15

Income and Capital Taxes

The provision for future income taxes for 2010 was a recovery of \$14.2 million compared to a recovery of \$21.0 million for 2009. The decrease in the recovery for 2010 was due to a lower pre-tax loss for the year due to higher revenues.

The provision for current income taxes for 2009 includes a recovery resulting from a revaluation of the estimated tax provision of a predecessor company of Progress.

Progress' estimated tax pool balances as at December 31, 2010 total approximately \$2.2 billion (2009 - \$1.7 billion).

Net Loss and Comprehensive Loss

Net loss and comprehensive loss for the year decreased 14 percent to a net loss of \$62.4 million compared to a net loss of \$72.6 million for the same period in 2009 due to higher revenues. The basic and diluted net loss for the year was \$0.31 per share and for the same period in 2009 the basic and diluted net loss was \$0.45 per share.

Dividends

Since the Arrangement on January 15, 2009, Progress has declared quarterly cash dividends of \$0.10 per common share resulting in total dividends for the year of \$0.40 per share. The total amount of dividends for 2010 was \$86.9 million (2009 - \$67.8 million), which included \$1.4 million (2009 - \$1.7 million) relating to accumulated distributions and dividends paid on performance units that vested during the year. Progress has a dividend reinvestment plan ("DRIP") whereby common shareholders can elect to receive their dividend in shares. The number of shares issued is based on 95 percent of the average market price being the weighted average trading prices of the shares for the five consecutive trading days before the dividend payment date. In 2010, 1,324,601 shares were issued under the DRIP and on January 17, 2011 the Company issued 516,775 common shares in payment of \$6.3 million of dividends for shareholders that elected to participate in the DRIP for the fourth quarter dividend. Progress intends to pay quarterly dividends, however these dividends are not guaranteed and are subject to approval of the Board of Directors.

Subsequent to year end the Board of Directors declared that the 2011 first quarter dividend will be maintained at \$0.10 per share. The dividend will be payable on April 15, 2011 to common shareholders of record as of March 31, 2011.

QUARTERLY FINANCIAL SUMMARY⁽¹⁾

	Three Months Ended							
	Dec 31 2010	Sept 30 2010	June 30 2010	Mar 31 2010	Dec 31 2009	Sept 30 2009	June 30 2009	Mar 31 2009
<i>(\$ thousands, except per share amounts)</i>								
Petroleum and natural gas revenue	107,957	105,305	115,859	113,471	86,145	64,421	77,031	102,660
Net earnings (loss)	(21,491)	(18,423)	(23,288)	764	(20,075)	(26,877)	(20,915)	(4,694)
Per share basic	(0.10)	(0.09)	(0.11)	-	(0.12)	(0.16)	(0.13)	(0.03)
Per share diluted	(0.10)	(0.09)	(0.11)	-	(0.12)	(0.16)	(0.13)	(0.03)

- (1) Throughout 2009, lower commodity prices due to the global economic slowdown resulted in a net loss for each quarter in 2009. Petroleum and natural gas revenue for the first quarter of 2010 increased over the fourth quarter of 2009 due to higher production and higher crude oil and NGL prices. Higher revenues as well as a \$14.6 million unrealized gain on financial instruments, resulted in higher net earnings in the first quarter of 2010 as compared to previous quarters in 2009. Petroleum and natural gas revenue increased slightly from the first quarter of 2010 as higher production as a result of the Foothills Acquisition was largely offset by lower commodity prices. The net loss for the second quarter of 2010 was due to higher DD&A expense due to the Foothills Acquisition, and an unrealized loss on financial instruments of \$7.9 million. For the third quarter of 2010, petroleum and natural gas revenue decreased from the second quarter of 2010 as a result of lower commodity prices through the summer season. The net loss was lower than the previous quarter due to an unrealized gain on financial instruments of \$1.1 million compared to a loss of \$7.9 million in the previous quarter. Revenues for the fourth quarter of 2010 were slightly higher than the third quarter due to higher crude oil and NGL prices. The higher net loss was due to a \$6.7 million unrealized loss on financial instruments in the fourth quarter as compared to the third quarter.

SELECTED ANNUAL INFORMATION

(\$ thousands, except per share amounts)	2010	2009	2008
Petroleum and natural gas revenue	442,592	330,257	514,720
Net earnings (loss)	(62,438)	(72,561)	96,990
Per share basic ⁽¹⁾	(0.31)	(0.45)	1.20
Per share diluted ⁽²⁾	(0.31)	(0.45)	1.18
Total assets	2,932,459	2,458,390	1,560,976
Dividends declared	86,901	67,787	-
Per share	0.40	0.40	-
Distributions declared	-	-	121,817
Per share ⁽³⁾	-	-	0.975
Working capital deficiency ⁽⁴⁾	20,105	9,269	20,556
Bank debt	312,508	277,878	299,531
Convertible debentures	249,313	296,753	124,708
Total debt	581,926	583,900	444,795

- (1) Adjusted to reflect the common shares issued for Trust units and Exchangeable shares as if they were issued on January 1, 2009. For 2008 only the common shares issued for Trust units are reflected as if they were issued on January 1, 2008.
- (2) For the year ended December 31, 2008 the common shares issued for the exchangeable shares and the performance units that vested as a result of the Arrangement are reflected in the weighted average diluted shares total. This is consistent with the reporting in 2008 regarding non-controlling interest. An adjustment to the numerator of \$12.6 million is required in the diluted earnings per share calculation to provide for earning attributable to non-controlling interest in 2008.
- (3) Adjusted to reflect the ratio of 0.8125 of a common share for each trust unit as specified in the Arrangement.
- (4) Excludes the fair value of financial instruments and the current portion of future income taxes.

Capital Expenditures

The Company invested approximately \$366.3 million in total capital expenditures in 2010 compared to \$190.0 million in 2009. Exploration and development capital amounted to \$375.6 million in 2010, compared to \$191.8 million in 2009.

(\$ thousands)	2010	2009
Land acquisitions and retention	38,426	30,052
Geological and geophysical	9,843	2,810
Drilling and completions	261,511	136,042
Equipping and facilities	64,921	22,643
Corporate assets	945	222
Exploration and development capital	375,646	191,769
Net property acquisitions (dispositions)	(9,328)	(1,744)
Total capital expenditures	366,318	190,025
Foothills Acquisition	389,233	-
Central Alberta Disposition	(42,854)	-
Arrangement (cash portion)	-	7,633
Total investing activities (before changes in non-cash working capital)	712,697	197,658

Progress drilled 77 gross wells (66.3 net) with a 100 percent success rate in 2010. Included in this drilling activity was 28 gross wells (25.1 net) drilled in the Deep Basin region of northwest Alberta, 48 gross wells (40.2 net) in the Foothills region of northeast British Columbia, and one gross well (1.0 net) in the Ojay area in northeast British Columbia.

Throughout 2010 the Company advanced its development plans on six Montney pods in the Foothills of northeast British Columbia (Altares, Caribou, Gundy, Kobes, Town North and Town South). Progress expects that each pod can be developed to a 50 mmcf per day natural gas asset, with sufficient well inventory remaining to maintain that production level for 10 years. The Company's most mature Montney development is at Town South where the Company has drilled 11 horizontal wells over the past two years with average 30-day initial production rates of 5,000 mcf per day. Additionally, the wells have averaged approximately 20 barrels of natural gas liquids per 1,000 mcf of natural gas produced, enhancing the economics of this play. During the fourth quarter of 2010, Progress drilled its first Lower Montney horizontal test at Town South. This well tested at 8,500 mcf per day at 9,000 kpa flowing tubing pressure, confirming the productive quality of the 200 meter thick Lower Montney interval. In addition, the well produced natural gas liquids consistent with previously drilled wells in the Upper Montney.

In 2010, the Company constructed a compression and dehydration facility at Town South and has recently expanded the facility to handle 50,000 mcf per day of natural gas. The facility is currently handling in excess of 35,000 mcf per day of natural gas. Progress plans on drilling an additional four horizontal wells in the first quarter and anticipates that its facility will be operating at near capacity by the end of the first quarter of 2011.

At its Kobes development pod in the North Montney region, where the Company holds a 30 percent working interest, Progress drilled a fourth horizontal well with a one month test rate of 11,000 mcf per day which is six kilometers north of the first horizontal well at Kobes which produced at an average rate of 7,700 mcf per day of natural gas. This latest horizontal well is among the highest test rates in the entire Montney fairway and continues to validate the scope and scale of the North Montney resource. Progress plans to drill an additional five horizontal wells in 2011. Progress recently started up its 25,000 mcf per day natural gas handling facility at Kobes. The facility is on-stream and currently producing over 22,000 mcf per day, of which 18,000 mcf per day is from the Montney formation.

In addition to the capital expenditures described above, on March 31, 2010, the Company acquired certain northeast British Columbia Foothills assets for \$389.2 million, including \$2.1 million in transaction costs. The Foothills Acquisition assets are immediately adjacent to the Company's producing assets in the Town, Bubbles and Blueberry/Beg areas and represent a strategic fit with the Company's existing northeast British Columbia Foothills properties. The assets included production of approximately 7,300 boe per day, 91 percent natural gas, and approximately 188,000 net acres of undeveloped land.

On June 30, 2010, the Company disposed of its Central Alberta properties for approximately, \$42.9 million.

On January 15, 2009, the Company completed the Arrangement which resulted in the combination of ProEx and the Trust in which each Trust unitholder received 0.8125 of a common share for each trust unit held. The transaction has been accounted for as a reverse takeover whereby the Trust has been deemed the acquirer of ProEx. The total consideration of the reverse takeover was approximately \$663.5 million based on the notional issuance of 73,479,481 Trust units at \$9.26 per Trust unit using the weighted average trading price of the Trust for a period before and after the announcement date of November 17, 2008, adjusted for the effect of normal issue costs, and estimated transaction costs and other costs of \$10.3 million. The resulting charge to property, plant and equipment on the allocation of the purchase was \$967.1 million. The common shares issued upon completion of the Arrangement represent the non-cash value of this transaction and are not included in the table above. Cash transaction costs incurred in 2009 of \$7.6 million have been disclosed separately on the consolidated statements of cash flows.

Undeveloped Land

Undeveloped land at December 31, 2010 increased 14 percent to 1,277,000 net acres compared to 1,116,000 net acres at December 31, 2009 primarily due to the Foothills Acquisition which added approximately 188,000 net acres of undeveloped land. During 2010 the Company added approximately 71,000 net acres of undeveloped land through Crown land sales (2009 – 110,000 net acres).

(acres)	2010 Gross	2010 Net	2009 Gross	2009 Net
Alberta	348,000	300,000	372,000	310,000
British Columbia	1,141,000	977,000	942,000	806,000
Total undeveloped land	1,489,000	1,277,000	1,314,000	1,116,000

Approximately 323,000 net acres or 25 percent of Progress' undeveloped land is in its final term. Management anticipates a significant portion of these lands will be earned or continued through its capital investment program.

Goodwill

The goodwill balance of \$414.7 million was primarily the result of the acquisition of Cequel Energy Inc. in 2004. In accordance with Canadian GAAP, goodwill is not amortized but is subject to an impairment test. Goodwill may be tested for impairment between annual tests in certain situations.

For these purposes, the fair value of goodwill is determined as the fair value of the Company as a whole less the fair value of the Company's identifiable assets and liabilities. A write-down of the carrying value of goodwill may be required if the fair value of the identifiable assets, less the fair value of liabilities, exceed the value of the Company, being primarily the value of its oil and natural gas reserves. Fair value was determined using a net asset value based approach using the December 31, 2010 reserve valuations, as well as estimates of the fair value of other assets less the Company's liabilities. There was no impairment of goodwill as a result of the tests conducted at December 31, 2010 and 2009.

Liquidity and Capital Resources

(\$ thousands, except per share amounts)	2010	2009
Working capital deficiency ⁽¹⁾	20,105	9,269
Bank debt	312,508	277,878
Convertible debentures	249,313	296,753
Total debt	581,926	583,900
Shares outstanding (thousands)	214,877	165,284
Market price per share, end of year	12.70	14.15
Market value of shares	2,728,938	2,338,769

(1) Excludes the fair value of financial instruments and the current portion of future income taxes.

At December 31, 2010 the Company had \$312.5 million outstanding on its credit facility of \$650.0 million, as well as \$249.3 million for the debt portion of the Debentures and a working capital deficiency of \$20.1 million, resulting in \$581.9 million of total debt.

The Company has extendible revolving term credit facilities in the amount of \$650 million from a syndicate of lenders. The borrowing base under the facilities is currently \$650 million and is subject to periodic re-determination by the lenders, the next renewal to occur on March 30, 2011. If renewed on March 30, 2011 the facilities will be available on a revolving basis until March 29, 2012, subject to extension at the lenders' discretion for successive 364 day periods. If an extension is not provided, the facilities will be available on a non-revolving basis for the following year and all amounts outstanding thereunder must be repaid in full at the end of such year. The facilities bear interest at a rate based on bankers acceptance rates (or LIBOR, for US dollar borrowings) plus a specified margin, which margin varies based on the Company's debt to cash flow ratio. The facilities contain customary restrictions on the incurrence of additional indebtedness, the disposition of assets and the granting of security. The facilities also contain customary

events of default, including if a change of control has occurred in respect of the Company, which could occur: (a) if a person or persons acting jointly or in concert, acquired more than 30 percent of the outstanding voting securities of the Company; or (b) if 50 percent or more of the consolidated reserves of the Company and its subsidiaries were sold or otherwise disposed of to another person. The Company is restricted from making distributions (including the declaration of dividends) if it is in default under the facilities (or a default would reasonably be expected to occur as a result of such distribution) or if its outstanding borrowings exceed its borrowing threshold. As with previous credit facilities, the amount of the facilities is subject to a borrowing base review performed on a periodic basis by the lenders, based primarily on reserves and using commodity prices estimated by the lenders, as well as other factors. A decrease in the borrowing base could result in a reduction to the credit facilities which may require a repayment to the lenders over the following 12 month period. The last borrowing base review was performed in the fourth quarter of 2010 using the Company's reserves and updated prices determined by the lenders. As a result, there was no change to the current credit facility. The facility is secured by a \$1.5 billion fixed and floating charge debenture on the assets of the Company. The renewal is scheduled for March 30, 2011 and the next semi-annual borrowing base review will be in September 2011.

Bank debt of \$312.5 million as at December 31, 2010 was \$34.6 million higher than December 31, 2009 bank debt of \$277.9 million. Capital expenditures for 2010 were partially offset by additional funds raised as part of the financing of the Foothills Acquisition. Progress issued 47,630,000 common shares at \$12.60 per share for total gross proceeds of \$600.1 million (\$588.8 million net of issue costs of \$11.3 million) to finance the Foothills Acquisition of \$389.2 million and a portion of the 2010 capital investment program. The share issuance was comprised of a \$350 million subscription receipt private placement with CPPIB and a concurrent \$250 million subscription receipt bought-deal financing through a syndicate of underwriters. Each subscription receipt represented the right to receive one common share of Progress, without the payment of any additional consideration, on the closing of the Foothills Acquisition which occurred on March 31, 2010. The increase in bank debt as a result of the repayment of the 6.75 percent debentures on June 30, 2010 for \$55.7 million was mostly offset by proceeds received on the sale of the Company's Central Alberta properties of approximately \$42.9 million. The working capital deficiency increased from \$9.3 million as at December 31, 2009 to \$20.1 million as at December 31, 2010. The increase was due to higher accounts payable and accrued liabilities as a result of higher capital expenditures near the end of 2010 as compared to 2009 as well as a higher cash dividends payable amount as a result of more shares outstanding at the end of 2010. The increase was partially offset by higher accounts receivable due to increased production.

As at December 31, 2010 Progress had the following Debentures outstanding. Each Debenture may be converted into common shares at the option of the holder at the applicable conversion price per common share noted below. The Company may elect to satisfy the interest and principal obligations by the issuance of common shares.

Debenture	Principal	Semi Annual Interest Payments	Conversion Price (\$/share)	Maturity Date
5.25%	200,000	April 30 and October 31	\$18.00	October 31, 2014
6.25%	75,000	March 31 and September 30	\$24.00	September 30, 2011

On June 30, 2010, the outstanding 6.75 percent debentures of \$55.7 million, matured and were settled with cash.

The Debentures have been classified as debt net of the fair value of the conversion feature which has been classified as part of shareholders' equity and net of issue costs. At December 31, 2010 the debt portion was \$249.3 million, net of unamortized issue costs. Issue costs are amortized over the term of the Debentures and the debt portion will accrete up to the principal balance at maturity. The accretion, amortization of issue costs and the interest paid are expensed with interest and financing expense on the consolidated statements of earnings.

The following table outlines the Debenture activity for the years ended December 31, 2010 and 2009:

(\$ thousands)	2010				2009			
	6.75%	6.25%	5.25%	Total	6.75%	6.25%	5.25%	Total
Principal, beginning of year ⁽¹⁾	55,667	75,000	200,000	330,667	55,667	75,000	-	130,667
Issued	-	-	-	-	-	-	200,000	200,000
Repayment	(55,667)	-	-	(55,667)	-	-	-	-
Principal, end of year	-	75,000	200,000	275,000	55,667	75,000	200,000	330,667
Debt portion, beginning of year ⁽¹⁾	55,180	72,132	169,441	296,753	54,196	70,512	-	124,708
Issued	-	-	-	-	-	-	168,308	168,308
Accretion	257	985	4,435	5,677	518	971	826	2,315
Amortization of issue costs	230	650	1,670	2,550	466	649	307	1,422
Repayment	(55,667)	-	-	(55,667)	-	-	-	-
Debt portion, end of year	-	73,767	175,546	249,313	55,180	72,132	169,441	296,753
Equity portion, beginning of year ⁽¹⁾	2,753	4,946	23,311	31,010	2,753	4,946	-	7,699
Issued	-	-	-	-	-	-	23,311	23,311
Expired	(2,753)	-	-	(2,753)	-	-	-	-
Equity portion, end of year	-	4,946	23,311	28,257	2,753	4,946	23,311	31,010

(1) The 6.75 percent debentures were issued February 2, 2005, the 6.25 percent debentures were issued August 22, 2006, and the 5.25 percent debentures were issued October 23, 2009.

Subsequent to the year ended December 31, 2010, Progress announced it has entered into an agreement with a syndicate of underwriters pursuant to which the underwriters have agreed to purchase on a bought deal basis 14,400,000 common shares at \$13.90 per share for gross proceeds of \$200.2 million (which includes CPPIB's subscription noted below) and \$200 million principal amount of 5.75 percent convertible unsecured subordinated debentures (the "5.75 percent debentures") for total combined gross proceeds of \$400.2 million (\$385.3 million net of issue costs). Subject to adjustment in certain circumstances, each debenture may be converted into common shares at the option of the holder at a conversion price of \$20.85 per common share. The 5.75 percent debentures will pay interest semi-annually on June 30 and December 31 in each year commencing on June 30, 2011 and will mature on June 30, 2016. The Company may satisfy the payment of principal and interest in common shares under certain circumstances. The offering is expected to be completed on March 7, 2011 and is subject to Progress receiving all necessary regulatory approvals. The net proceeds will initially be used to repay the Company's outstanding bank debt thereby freeing up borrowing capacity to fund a portion of the Company's \$350 million capital program for 2011.

Pursuant to its existing subscription right, CPPIB, which currently owns approximately 14.7 percent of Progress' outstanding common shares, has agreed to subscribe for 2,116,800 common shares at a price of \$13.90 per share.

Current economic conditions

Despite the economic downturn and financial market volatility dating back to 2009, Progress continued to have access to both debt and equity markets in 2009, 2010 and into 2011. As noted above, on March 7, 2011 the Company expects to issue 14,400,000 common shares at \$13.90 per share as well as \$200 million principal amount of the 5.75 percent debentures. On March 31, 2010 Progress raised \$600.1 million gross (\$588.8 net of issue costs) on the issuance of 47,630,000 common shares at \$12.60 per share and on October 23, 2009 the Company issued \$200.0 million principal amount of 5.25 percent debentures. At December 31, 2010 the Company had approximately \$335 million available on its current credit facilities, which the Company expects to repay with the latest financing thereby freeing up borrowing capacity.

The Company's investing activities for the year ended December 31, 2010 consisted of expenditures on its capital program, the Foothills Acquisition and the disposition of its Central Alberta properties. Management anticipates that the Company will continue to have adequate liquidity to fund budgeted capital investments through a combination of cash flow, equity and debt. The Company is also pursuing asset dispositions and joint venture arrangements to support future capital programs. Cash flow used to finance these commitments may reduce the amount of dividends paid to shareholders as dividends are not guaranteed.

Outstanding as at February 23, 2011 were the following:

	Shares outstanding or issuable
Common shares	215,446,561
Convertible debentures	14,236,111
Stock options	7,246,734
Restricted Unit Awards	175,787
Performance Unit Awards	519,975
Performance units from the Trust	379,966
LTI component from the Trust	10,676

Off Balance Sheet Arrangements

The Company had no guarantees or off-balance sheet arrangements except for certain lease agreements and letters of credit. The Company had certain lease agreements that were entered into in the normal course of operations. All leases are treated as operating leases whereby the lease payments are included in operating expenses or G&A expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the balance sheet as at December 31, 2010. The total future obligation from these operating leases is described below in the section *"Contractual Obligations and Commitments"*.

Letters of credit of approximately \$2.5 million as at December 31, 2010 (2009 – \$1.4 million) had been issued in the normal course of business primarily for contract firm transportation.

Shareholders' Equity

At December 31, 2010, there were 214.9 million common shares outstanding, compared to 165.3 million common shares outstanding at December 31, 2009. The increase was primarily due to the March 2010 common share financing, the Company's dividend reinvestment plan and share based compensation paid during the year.

Contractual Obligations and Commitments

The Company contracted for firm transportation on the TransCanada and Atco systems in Alberta and the Spectra Energy system in British Columbia. The Company also had an office lease commitment that extends to 2013. The annual cost of this lease commitment, which includes rent and operating expenses, is approximately \$2.2 million.

The Company must pay crown royalty, surface rentals, mineral taxes and abandonment and reclamation costs with respect to its ongoing ownership of hydrocarbon production rights. The amounts paid with respect to these burdens depend on the future ownership, production, prices and legislative environment at the time.

(\$ thousands)	Total	Minimum Annual Commitment				
		2011	2012	2013	2014	2015
Bank debt ⁽¹⁾	312,508	-	312,508	-	-	-
Convertible debentures	275,000	75,000	-	-	200,000	-
Pipeline commitments	78,577	39,850	15,325	10,005	8,308	5,089
Drilling commitments	6,890	6,890	-	-	-	-
Operating leases	7,920	4,275	2,397	768	480	-
Drilling rig commitments	3,000	1,500	1,500	-	-	-
Financial instrument premiums	4,903	4,903	-	-	-	-
Office lease	5,236	2,244	2,244	748	-	-
Total	694,034	134,662	333,974	11,521	208,788	5,089

(1) Based on the existing terms of the \$650 million revolving credit facility which is subject to renewal on or before March 30, 2011. If not extended, the facilities would be available on a non-revolving basis for a 364 day period at which time the facilities would be due and payable.

FOURTH QUARTER ANALYSIS

	Q4 2010	Q3 2010	Q4 2009
OPERATIONAL HIGHLIGHTS			
Daily Production			
Natural gas (<i>mcf/d</i>)	225,594	222,540	161,497
Crude oil (<i>bbls/d</i>)	2,127	1,872	1,882
Natural gas liquids (<i>bbls/d</i>)	2,974	3,373	2,592
Total daily production (<i>boe/d</i>)	42,700	42,335	31,390
Average Benchmark Prices			
Natural gas - AECO (daily) (<i>\$/gj</i>)	3.43	3.36	4.26
Natural gas - AECO (monthly) (<i>\$/gj</i>)	3.39	3.52	4.01
Natural gas - Station #2 (daily) (<i>\$/gj</i>)	3.18	3.16	4.23
Crude oil - WTI (<i>US\$/bbl</i>)	85.17	76.20	76.19
Crude oil - Edmonton par price (<i>Cdn\$/bbl</i>)	79.76	74.59	76.60
Exchange rate (<i>US\$/Cdn\$</i>)	1.0128	1.0391	1.0563
Average Realized Prices			
Natural gas (<i>\$/mcf</i>)	3.68	3.78	4.21
Crude oil (<i>\$/bbl</i>)	74.79	69.79	71.06
Natural gas liquids (<i>\$/bbl</i>)	60.48	51.35	49.15
FINANCIAL HIGHLIGHTS			
(\$ thousands, except per share amounts)			
Petroleum and natural gas revenue	107,957	105,305	86,145
Royalties	(15,436)	(16,038)	(12,171)
Realized gain (loss) on financial instruments	7,377	5,735	(171)
Operating expenses	(22,215)	(23,800)	(18,803)
Transportation expenses	(12,648)	(12,623)	(9,207)
General and administrative expenses	(3,038)	(3,605)	(3,285)
Stock based compensation expense	(2,487)	(2,439)	(2,846)
Depletion, depreciation and accretion expense	(70,250)	(69,432)	(57,862)
Net loss	(21,491)	(18,423)	(20,075)
Per share basic	(0.10)	(0.09)	(0.12)
Per share diluted	(0.10)	(0.09)	(0.12)
Exploration and development capital	103,814	108,215	49,512
Net property acquisitions (dispositions)	(3,126)	-	(1,546)
Total capital expenditures	100,688	108,215	47,966

Production

Average production during the fourth quarter of 2010 (the "Quarter") of 42,700 boe per day was higher than both the third quarter of 2010 of 42,335 boe per day and the fourth quarter of 2009 at 31,390 boe per day. The increase from the third quarter of 2010 was due to wells drilled in the third quarter being brought on stream in the fourth quarter. The increase over the fourth quarter of 2009 was a result of the Foothills Acquisition and successful drilling results.

Revenue

Petroleum and natural gas revenue for the Quarter of \$108.0 million was three percent higher than the third quarter of 2010 of \$105.3 million due to increased production and higher crude oil and NGL prices. Revenue was higher than the fourth quarter of 2009 of \$86.1 million due to higher production, which was partially offset by lower natural gas prices.

Royalties

Royalties for the Quarter of \$15.4 million were slightly lower than the third quarter of 2010 of \$16.0 million and was 27 percent higher than the fourth quarter of 2009 of \$12.2 million. The average royalty rate for the Quarter of 14.3 percent was lower than the third quarter of 2010 of 15.2 percent and was consistent with the fourth quarter of 2009 of 14.1 percent.

Operating Expenses

Operating expenses for the Quarter of \$22.2 million were seven percent lower than the third quarter of 2010 of \$23.8 million as a result of efficiencies realized from the Foothills Acquisition and 18 percent higher than the fourth quarter of 2009 of \$18.8 million due to the increase in production. As a result, operating expenses during the Quarter averaged \$5.65 per boe compared to \$6.11 per boe during the third quarter of 2010 and \$6.51 per boe during the fourth quarter of 2009.

Transportation Expenses

Transportation expenses for the Quarter of \$12.6 million were consistent with the third quarter of 2010 of \$12.6 million and 37 percent higher than the fourth quarter of 2009 of \$9.2 million. The increase over the fourth quarter of 2009 is a result of the Company's growth in British Columbia due to the Foothills Acquisition and successful drilling results. Transportation expenses during the Quarter averaged \$3.22 per boe compared to \$3.24 per boe during the third quarter of 2010 and \$3.19 per boe during the fourth quarter of 2009. In British Columbia, producers pay an all-in charge for regulated gathering, processing and transmission fees enabling producers to avoid facility construction. This all-in charge is included in transportation expenses.

General and Administrative Expenses

G&A expenses for the Quarter of \$3.0 million were 16 percent lower than the third quarter of 2010 of \$3.6 million due to higher capital recoveries in the Quarter and eight percent lower than the fourth quarter of 2009 of \$3.3 million due to higher operator recoveries in the Quarter. G&A expenses averaged \$0.77 per boe during the Quarter compared to \$0.93 per boe in the third quarter of 2010 and \$1.14 per boe during the fourth quarter of 2009.

Depletion, Depreciation and Accretion

DD&A expense for the Quarter of \$70.3 million was slightly higher than the third quarter of 2010 of \$69.4 million. It was 21 percent higher than the fourth quarter of 2009 of \$57.9 million as a result of the Foothills Acquisition. This resulted in DD&A of \$17.88 per boe for the Quarter compared to \$17.83 per boe for the third quarter of 2010 and \$20.04 for the fourth quarter of 2009.

Future Income Taxes

The provision for future income taxes in the Quarter resulted in a recovery of \$4.7 million consistent with the third quarter of 2010 of \$4.9 million and slightly lower than the recovery for the fourth quarter of 2009 of \$5.3 million.

Net Earnings

Net loss for the Quarter was \$21.5 million compared to a net loss of \$18.4 million for the third quarter of 2010 and net loss of \$20.1 million for the fourth quarter of 2009. The higher net loss over the third quarter of 2010 was due to a higher unrealized loss on financial instruments in the Quarter. Compared to the fourth quarter of 2009, higher revenues for the Quarter were offset by higher expenses, resulting in a net loss consistent with the same period in 2009.

Capital Expenditures

During the Quarter, the Company incurred \$100.7 million of capital expenditures comprised of \$2.2 million in land acquisition and retention, \$80.4 million in drilling and completions, \$1.7 million in geological and geophysical, \$19.4 million in facility construction and \$0.1 million in corporate assets. This was partially offset by \$3.1 million in property dispositions. During the Quarter the Company drilled 20 gross wells (17.7 net) with 15 gross wells (13.2 net) drilled in the northeast British Columbia Foothills and five gross wells (4.5 net) drilled in the Deep Basin of northwest Alberta.

Total capital investment during the Quarter was \$100.7 million compared to \$108.2 million in the third quarter of 2010 and \$48.0 million in the fourth quarter of 2009.

ENVIRONMENT, HEALTH AND SAFETY

Progress places a high priority on preserving the quality of its environment and protecting the health and safety of its employees, contractors and the public in communities in which it lives and works. Progress actively participates in industry-recognized programs at the highest possible levels in an effort to support continuous improvement. In this regard, Progress:

- Maintained a Platinum membership in the Environment, Health and Safety Stewardship Program developed by the Canadian Association of Petroleum Producers. Progress' participation requires its commitment to continuous improvement in its environment, health and safety management practices including sound planning and implementation, open communication, demonstrated performance and a thorough external audit of its activities every 3 years.
- Increased the number of emergency response exercises conducted to further enhance our emergency preparedness.
- Initiated the implementation of a web based performance and compliance management tool to further improve our capture and follow-up on inspections, incidents, near misses and the various regulatory compliance requirements.
- Maintained an active site abandonment and reclamation program which has resulted in 25 reclamation certificates being received in 2010.

Progress continually works to improve its health and safety performance through increased awareness in the field by frequently communicating safety expectations and responsibilities to its employees and contractors, by issuing/sharing safety information and by the promotion of industry recognized best practices.

In 2010, Progress' overall health and safety performance continued to improve. There has been no employee lost time incidents in the last 3 years. Progress' contractors had two lost-time incidents compared to four in 2009 and our Total Recordable Incident Frequency (TRIF) is 0.72 which is top quartile amongst our peers.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements in accordance with Canadian GAAP requires Management to make judgments and estimates that affect the financial results of the Company. Progress' Management reviews its estimates regularly, but new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. A summary of significant accounting policies are presented in Note 2 to the consolidated financial statements. The critical estimates are discussed below:

Petroleum and Natural Gas Reserves

All of Progress' petroleum and natural gas reserves are evaluated and reported on by independent petroleum engineering consultants in accordance with Canadian Securities Administrators' National Instrument 51-101 ("NI 51-101"). The evaluation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, commodity prices and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. The Company expects that its estimates of reserves will change to reflect updated information. Reserve estimates can be revised upward or downward based on the results of future drilling, testing, production levels and changes in costs and commodity prices.

Depletion Expense

The Company uses the full cost method of accounting for exploration and development activities whereby all costs associated with these activities are capitalized, whether successful or not. The aggregate of capitalized costs, net of certain costs related to unproved properties, and estimated future development costs is amortized using the unit-of-production method based on estimated proved reserves. Changes in estimated proved reserves or future development costs have a direct impact on depletion expense.

Certain costs related to unproved properties and major development projects may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly to determine if proved reserves should be assigned, at which point they would be included in the depletion calculation, or for impairment, for which any write-down would be charged to depletion and depreciation expense.

Full Cost Accounting Ceiling Test

The carrying value of property, plant and equipment is reviewed at least annually for impairment. Impairment occurs when the carrying value of the assets is not recoverable by the future undiscounted cash flows. The cost recovery ceiling test is based on estimates of proved reserves, production rates, future petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Any impairment would be charged as additional depletion expense.

Asset Retirement Obligations

The asset retirement obligations is estimated based on existing laws, contracts or other policies. The fair value of the obligation is based on estimated future costs for abandonments and reclamations discounted at a credit adjusted risk free rate. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings and for revisions to the estimated future cash flows. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.

Income Taxes

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

CHANGE IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

International Reporting Standards

On January 1, 2011 International Financial Reporting Standards (“IFRS”) will become the generally accepted accounting principles in Canada. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by Progress for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010. The project to convert to IFRS is being managed by an in-house team of accounting professionals who have engaged in IFRS educational programs and continue to develop the Company’s adoption to IFRS. The Company’s auditors have been and will continue to be involved throughout the process to ensure the Company’s policies are in accordance with these new standards.

In July 2009 an amendment to IFRS 1 First Time Adoption of International Reporting Standards was issued that applies to oil and gas assets. The amendment allows an entity that used full cost accounting under its previous GAAP to elect, at its time of adoption, to measure exploration and evaluation assets at the amount determined under the entity’s previous GAAP and to measure oil and gas assets in the development and production phases by allocating the amount determined under the entity’s previous GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of that date. Progress will use this exemption. IFRS 1 also provides a number of other optional exemptions and mandatory exceptions in certain areas to the general requirement for full retrospective application which are.

Business Combinations – IFRS 1 would allow Progress to use the IFRS rules for business combinations on a prospective basis rather than re-stating all business combinations.

Share-based payments – IFRS 1 allows Progress an exemption on IFRS 2, “Share-Based Payments” to equity instruments which vested before Progress’ transition date to IFRS.

Progress will use these exemptions.

The transition from Canadian GAAP to IFRS is significant and may materially affect our reported financial position and results of operations. At this time, Progress has identified key differences that will impact the financial statements and the current status of those items:

- Exploration and Evaluation (“E&E”) assets – On transition to IFRS Progress will re-classify all E&E assets that are currently included in the PP&E balance on the consolidated balance sheet. This will consist of the book value of undeveloped land that relates to exploration properties. E&E assets will not be depleted and must be assessed for impairment at the transition date and when indicators of impairment exist. Progress has currently determined its E&E asset balance to be approximately \$200 million at January 1, 2010 and there is no transitional impairment of the E&E assets.
- Property, plant and equipment (“PP&E”) – This includes oil and gas assets in the development and production phases. The Company has allocated the amount recognized under current Canadian GAAP as at January 1, 2010 using both reserve volumes and reserve values to a cash generating unit (“CGU”). Progress will use reserve values to allocate the amount recognized under current Canadian GAAP to the CGUs.
- Impairment of PP&E assets – Under IFRS, impairment tests of PP&E must be performed at the CGU level as opposed to the entire PP&E balance which is required under current Canadian GAAP through the full cost ceiling test. Impairment calculations are required to be performed using fair values of the PP&E assets and Progress anticipates using discounted proved plus probable reserve values for impairment tests of PP&E. Progress does not anticipate its PP&E assets to be impaired as at January 1, 2010 under IFRS. As a result of continued decreases in natural gas prices through 2010 and the impact on future natural gas prices used in evaluating the Company’s 2010 reserves, Progress anticipates certain CGU’s within PP&E will be impaired, the amount of which has not yet been determined.

- **Impairment of goodwill** – For goodwill impairment tests under IFRS, goodwill that arises from a business combination should be allocated to the specific CGUs that are expected to benefit from the business combination. The carrying value of the CGU including goodwill is compared to the fair value of the CGU and any excess of the carrying value over the fair value is considered an impairment. As the goodwill impairment is performed on a much smaller portion of the Company's assets (i.e. at the CGU level), approximately \$370 million of Progress' goodwill is impaired and will be charged through opening retained earnings on its opening IFRS balance sheet. As a result of continued decreases in natural gas prices and their impact on the value of the Company's reserves for certain CGU's at December 31, 2010, Progress anticipates an additional goodwill impairment of up to approximately \$34 million as at December 31, 2010.
- **Depletion expense** – On transition to IFRS Progress has the option to base the depletion calculation using either proved reserves or proved plus probable reserves. Progress will use proved plus probable reserves.
- **Share based payments** – The Company has determined the major differences from current Canadian GAAP that would impact the Company which are treating graded vesting awards as multiple separate awards with different lives and estimating forfeiture rates in advance as opposed to recognizing the impact when the forfeiture occurs. Progress does not anticipate the difference to be significant.
- **Provisions** – The major difference between the current Canadian standard and IFRS appears to be the discount rate used to measure the asset retirement obligation ("ARO"). Under the current Canadian standard a credit adjusted risk free rate is used, whereby the IFRS allows the use of a risk free rate when the expected cash flows are risked. There was debate within the industry on the discount rate and whether there should be a risk component to it. Based on recent comments made by the standard setters and positions within the industry, Progress believes a risk free rate is more appropriate. As a result, Progress has measured its ARO liability on transition using a risk free rate of four percent resulting in an increase to the liability of approximately \$26 million with an offsetting charge to the opening retained earnings or deficit.

In addition to the accounting policy differences, Progress' transition to IFRS will impact the internal controls over financial reporting, the disclosure controls and procedures and information technology ("IT") systems as follows:

Internal controls over financial reporting – Based on the Company's accounting policies under IFRS Progress has assessed whether additional controls or changes in procedures are required. Progress does not consider these changes to be significant.

Disclosure controls and procedures – Throughout the transition process, Progress will be assessing stakeholder's information requirements and will ensure that adequate and timely information is provided while ensuring the Company maintains its due process regarding information that is disclosed.

IT Systems – Progress has assessed the readiness of its accounting software and has and continues to assess other system requirements that may be needed in order to perform ongoing calculations and analysis under IFRS. These changes are not considered to be significant.

Management is continuing to finalize its accounting policies and choices and is continuing with its due process in regards to information that is disclosed. As such, the Company is currently unable to quantify the full impact on the financial statements of adopting IFRS however, the Company has disclosed certain expectations above based on information known to date. Due to anticipated changes to IFRS and International Accounting Standards prior to Progress' adoption of IFRS, certain items may be subject to change based on new facts and circumstances that arise after the date of this MD&A.

NEW ACCOUNTING PRONOUNCEMENTS

Amendments to IFRS 7 – Financial Instruments: Disclosures – The amendments emphasize the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments and is effective for annual periods beginning on or after July 1, 2011. Progress is currently assessing the impact of these amendments.

IFRS 9 – Financial Instruments – This is the first standard issued as part of a wider project to replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. IFRS 9 also includes the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities. Guidance on how to measure the fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, remain the same as IAS 39. This standard is effective January 1, 2013, however, prior periods need not be restated if adopted January 1, 2012. Progress is currently assessing the impact of the new standard.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's Management as appropriate to allow timely decisions regarding required disclosures. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the annual filings, that the Company's internal controls over financial reporting ("ICOFR") and disclosure controls and procedures ("DC&P") are effective to provide reasonable assurance that material information related to the issuer, is made known to them by others within the Company.

Management has assessed the effectiveness of the Company's ICOFR as defined by Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. The assessment was based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations. Management concluded that the Company's ICOFR was effective as of December 31, 2010. No changes were made to the Company's ICOFR during the period from October 1, 2010 to December 31, 2010 or during the year ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

It should be noted that while the Company's Management including the Chief Executive Officer and Chief Financial Officer believe that the Company's ICOFR and DC&P provide a reasonable level of assurance that they are effective, they do not expect that these controls will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

RISK FACTORS AND RISK MANAGEMENT

Investors that purchase shares are participating in the net cash flow from a portfolio of natural gas and crude oil producing properties. As such, the cash flow paid to investors and the value of the Company's shares is subject to numerous risk factors. Some of the risks are common to all businesses while many are associated with the oil and gas industry. The following information is only a summary of certain risk factors which could affect the Company's future results:

Economic Conditions – Debt and Equity Markets

Market events and conditions beginning in late 2008 and continuing through 2009 and 2010, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions, resulted in a loss of confidence in the broader US and global credit and financial markets and resulted in the collapse of, and government intervention in, major banks, financial institutions and insurers and created a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. Although economic conditions improved towards the latter portion of 2009 and 2010 these factors have negatively impacted company valuations and may impact the performance of the global economy going forward.

Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing global credit and liquidity concerns.

The Company has extendible revolving term credit facilities in the amount of \$650 million from a syndicate of banks (refer to "Liquidity and Capital Resources" above). The Company also has access to capital markets as evidenced in its subscription receipt financings in conjunction with the Foothills Acquisition and the financing announced in February 2011 for gross proceeds of \$400.2 million which is expected to close on March 7, 2011. The Company has set its 2011 budget in accordance with current commodity prices.

Commodity Price Risk

The Company's results of operations and financial condition are dependent on prices received for the production of natural gas and crude oil. With the Company's production heavily weighted to natural gas, changes to natural gas prices have the most material effect on its cash flow. Prices for natural gas and crude oil have fluctuated significantly during recent years and are determined by supply and demand factors, including weather and general economic conditions, as well as conditions in other oil producing regions, which are beyond the control of the Company. Prices received from production in Canada also reflect changes in the Canadian/US currency exchange rate. Any decline in the prices for natural gas and crude oil could have a material adverse effect on the Company's operations, financial condition and the level of capital expenditures provided for the development of its natural gas and crude oil reserves.

The Company uses financial derivative instruments in an effort to limit a portion of the potential adverse effects resulting from volatility in natural gas and crude oil commodity prices, while retaining exposure to upside price movements. The Company's hedging activities are conducted pursuant to the Company's Risk Management Policy approved by the Board of Directors. To the extent commodity price exposure is hedged, the benefits that would otherwise be experienced if commodity prices were to increase would be foregone.

Credit Facility Risk

At the option of the Company, the lenders will review the facilities each year, the next being March 30, 2011 and determine if they will extend for a further 364 day period. The borrowing base under the facilities is currently \$650 million. If renewed on March 30, 2011 the facilities will be available on a revolving basis until March 29, 2012, subject to extension at the lenders' discretion for successive 364 day periods. If an extension is not provided, the facilities will be available on a non-revolving basis for the following year and all amounts outstanding thereunder must be repaid in full at the end of such year. There is a risk that the facilities will not be renewed for the same amount or on the same terms. Any of these events could affect the Company's ability to fund ongoing operations.

The facilities are "borrowing base" facilities, meaning that the amount of available credit is dependent in part on the reserves attributable to the Company's assets. A sustained material decline in prices of oil and natural gas could materially reduce the Company's borrowing base, thereby reducing the bank credit available to the Company and possibly causing a portion of such bank debt to be required to be repaid. The borrowing base is generally re-determined by the lenders semi-annually and upon the acquisition or disposition of assets beyond certain defined limits. The renewal is expected on March 30, 2011.

The \$650 million credit facilities were reviewed in October, 2010 based on recent reserves and commodity price information at the time. (see “Liquidity and Capital Resources” above).

Operational Matters

The ownership and operation of oil and natural gas wells, pipelines and facilities involves a number of operating and natural hazards which may result in blowouts, environmental damage and other unexpected or dangerous conditions resulting in damage to the Company’s natural gas and oil properties and assets, as well as possible liability to third parties. The Company may become liable for damages arising from such events against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons. Costs incurred to repair such damage or pay such liabilities will reduce the cash flow of the Company.

The Company employs prudent risk management practices and maintains suitable liability insurance, where available. Business interruption insurance is also purchased for selected facilities, to the extent that such insurance is reasonably available.

Reserve Estimates

Estimates of economically recoverable natural gas and crude oil reserves (including natural gas liquids) and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as commodity prices, projected production from the properties, the assumed effects of regulation by government agencies and future operating expenses. All of these estimates may vary from actual results. Estimates of the recoverable natural gas and crude oil reserves attributable to any particular group of properties, classifications of such reserves based on risk of recovery and estimates of future net revenues expected therefrom, may vary. The Company’s actual production, revenues, taxes, development and operating expenditures with respect to its reserves may vary from such estimates, and such variances could be material.

Each year, a firm of independent engineers evaluates a significant portion of proved and probable reserves. At December 31, 2010, 100 percent of the reserves of Progress were evaluated by GLJ.

Exploration and Development Risks

Oil and gas exploration and development requires manpower and capital to generate, develop and test exploration concepts. The eventual testing of a concept will not necessarily result in the discovery of economical reserves.

The Company attempts to minimize the risk of developing existing and new reserves by ensuring that: (a) activity is focused in core regions where expertise and experience is greatest (b) the number of wells drilled is large enough to increase the probability of statistical success rates (c) geophysical techniques are utilized where appropriate (d) by focusing its activities in core regions and major play types, allowing it to leverage off its experience and knowledge in these areas further aiding efficiencies and (e) farm-outs are entered into to minimize risk on plays it considers higher risk.

Access to Capital Markets

The cash flow from operations from the Company’s reserves may not be sufficient to fund its ongoing activities at all times. From time to time, the Company may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate operations. If the revenues from the Company’s reserves decrease as a result of lower oil and natural gas prices or otherwise, it will effect its ability to expend the necessary capital to replace its reserves or to maintain its production. If cash generated from operations is not sufficient to satisfy capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on terms acceptable. Neither its articles nor by-laws limit the amount of indebtedness that the Company may incur. The level of indebtedness from time to time could impair its ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise. In addition, cash flow is influenced by factors which the Company cannot control, such as commodity prices, the US/Canadian exchange rate, interest rates and changes to existing government regulations and tax policies. Should circumstances affect cash flow from operations in a

detrimental way, the Company would respond by increasing debt to within the Company's self-imposed debt guideline and/or reducing capital expenditures.

The Company relies on various sources of funding to support its growing capital expenditure program, including:

- *Internally generated cash flow from operations provides the minimum level of funding on which the Company's annual capital expenditures program is based.*
- *Debt may be utilized to expand capital programs when deemed appropriate.*
- *New equity, if available and on favorable terms, may be utilized to expand exploration programs and fund acquisitions.*

The Company's shares are listed on the TSX and the Company maintains an active investor relations program designed to facilitate access to the equity capital markets. The Company also maintains a prudent capital structure by retaining a portion of its net cash flow for debt repayment when appropriate, managing capital expenditures within rate of return risk parameters and by utilizing equity markets.

Regulatory Risk

There can be no assurance that government royalties, income tax laws, environmental laws and regulatory requirements relating to the oil and gas industry will not be changed in a manner which adversely affects the Company or its shareholders.

Although the Company has no control over these regulatory risks, it continuously monitors changes in these areas by participating in industry organizations and conferences, exchanging information with third party experts and employing qualified individuals to assess the impact of such changes on the Company's financial and operating results.

Environment and Safety Risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require Progress to incur costs to remedy such discharge. Although the Company believes that it will be in material compliance with current applicable environmental regulations no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects. There has been much public debate with respect to Canada's ability to meet certain environmental targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases whether to meet the limits required by the Kyoto Protocol or as otherwise determined, could have a material impact on the nature of oil and natural gas operations, including those of the Company. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict either the nature of those requirements or the impact on the Company and its operations and financial condition.

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". Recently, representatives from approximately 170 countries met in Copenhagen, Denmark to attempt to negotiate a successor to the Kyoto Protocol. The result of such meeting was the Copenhagen Accord, a non-binding political consensus rather than a binding international treaty such as the Kyoto Protocol. The Company's exploration and production facilities and other operations and activities emit greenhouse gases and require the Company to comply with greenhouse gas emissions legislation in Alberta and British Columbia. The Company will also be required comply with the regulatory scheme for greenhouse gas emissions ultimately adopted by the federal government, which are now expected to be consistent with the regulatory scheme for

greenhouse gas emissions adopted by the United States. The direct or indirect costs of these regulations may adversely affect the Company's business, financial condition, results of operations and prospects.

The board of directors has reviewed and approved policies and procedures covering environmental risks, emergency response and employee safety. These policies and procedures are designed to protect and maintain the environment with respect to all corporate operations on behalf of shareholders, employees and the public at large. The Company mitigates environmental and safety risks by maintaining its facilities, complying with all provincial and federal environmental and safety regulations and maintaining adequate insurance.

Credit Risks

The Company assumes customer credit risk associated with natural gas and crude oil sales, financial hedging transactions and joint venture participants.

Management has established controls designed to mitigate the risk of default or non-payment with respect to natural gas and crude oil sales, financial hedging transactions and joint venture participants.

ADDITIONAL INFORMATION

Additional information regarding Progress and its business and operations, including the annual information form ("AIF") is available on the Company's profile at www.sedar.com. Copies of the AIF can also be obtained by contacting the Company at Progress Energy Resources Corp. 1200, 205 – 5th Avenue S.W., Calgary, Alberta, Canada T2P 2V7 or by e-mail at ir@progressenergy.com. This information is also accessible on the Company's web site at www.progressenergy.com.

INDEPENDENT AUDITORS' REPORT

To the Shareholders,

We have audited the accompanying consolidated financial statements of Progress Energy Resources Corp. ("the Company"), which comprise the consolidated balance sheets as at December 31, 2010 and 2009, the consolidated statements of loss, comprehensive loss and deficit, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted auditing standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2010 and 2009, and the results of its consolidated operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "KPMG LLP"
Chartered Accountants
Calgary, Canada
February 24, 2011

PROGRESS ENERGY RESOURCES CORP.

CONSOLIDATED BALANCE SHEETS

<i>As at December 31 (\$ thousands)</i>	2010	2009
ASSETS		
Current		
Accounts receivable	64,243	41,086
Prepaid expenses and deposits	6,568	10,435
Fair value of financial instruments <i>(Note 11)</i>	3,928	2,848
Investments <i>(Note 11)</i>	10,667	9,601
	85,406	63,970
Property, plant and equipment <i>(Note 4)</i>	2,432,398	1,979,765
Goodwill	414,655	414,655
	2,932,459	2,458,390
LIABILITIES		
Current		
Accounts payable and accrued liabilities	80,095	53,863
Cash dividends payable	21,488	16,528
Convertible debentures <i>(Note 6)</i>	73,767	55,180
Future income taxes <i>(Note 9)</i>	1,111	712
	176,461	126,283
Bank debt <i>(Note 5)</i>	312,508	277,878
Convertible debentures <i>(Note 6)</i>	175,546	241,573
Asset retirement obligations <i>(Note 7)</i>	42,297	39,423
Future income taxes <i>(Note 9)</i>	40,547	57,935
	747,359	743,092
SHAREHOLDERS' EQUITY		
Shareholders' capital <i>(Note 8)</i>	2,561,807	1,944,738
Convertible debentures <i>(Note 6)</i>	28,257	31,010
Contributed surplus <i>(Note 8)</i>	21,860	17,035
Deficit	(426,824)	(277,485)
	2,185,100	1,715,298
Commitments <i>(Note 12)</i>		
Subsequent events <i>(Notes 8 and 13)</i>		
	2,932,459	2,458,390

See accompanying notes to the consolidated financial statements

Approved on behalf of the Board of Directors of Progress Energy Resources Corp.

(signed) "David D. Johnson"
Director

(signed) "Donald F. Archibald"
Director

PROGRESS ENERGY RESOURCES CORP.
CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

<i>Years ended December 31 (\$ thousands, except per share amounts)</i>	2010	2009
REVENUE		
Petroleum and natural gas	442,592	330,257
Royalties	(68,280)	(42,379)
	374,312	287,878
Realized gain on financial instruments <i>(Note 11)</i>	16,095	18,431
Unrealized gain (loss) on financial instruments <i>(Note 11)</i>	1,080	(11,736)
Unrealized gain on investments <i>(Note 11)</i>	1,066	857
	392,553	295,430
EXPENSES		
Operating	90,864	79,912
Transportation	47,656	35,949
General and administrative	14,242	13,604
Stock based compensation <i>(Note 8)</i>	11,058	11,572
Interest and financing	39,089	28,421
Depletion, depreciation and accretion	266,300	224,457
	469,209	393,915
Loss before taxes	(76,656)	(98,485)
TAXES		
Current income taxes <i>(Note 9)</i>	-	(4,922)
Future income tax reduction <i>(Note 9)</i>	(14,218)	(21,002)
	(14,218)	(25,924)
NET LOSS AND COMPREHENSIVE LOSS	(62,438)	(72,561)
Deficit, beginning of year	(277,485)	(137,137)
Dividends	(86,901)	(67,787)
Deficit, end of year	(426,824)	(277,485)
NET LOSS PER SHARE <i>(Note 8)</i>		
Basic and diluted	(0.31)	(0.45)

See accompanying notes to the consolidated financial statements

PROGRESS ENERGY RESOURCES CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>Years ended December 31 (\$ thousands)</i>	2010	2009
OPERATING ACTIVITIES		
Net loss	(62,438)	(72,561)
Unrealized loss (gain) on financial instruments <i>(Note 11)</i>	(1,080)	11,736
Unrealized gain on investments <i>(Note 11)</i>	(1,066)	(857)
Depletion, depreciation and accretion	266,300	224,457
Convertible debentures accretion <i>(Note 6)</i>	5,677	2,315
Amortization of convertible debenture issue costs <i>(Note 6)</i>	2,550	1,422
Stock based compensation expense <i>(Note 8)</i>	11,058	11,234
Asset retirement expenditures <i>(Note 7)</i>	(2,500)	(3,490)
Future income tax reduction	(14,218)	(21,002)
	204,283	153,254
Changes in non-cash working capital <i>(Note 10)</i>	(9,034)	(6,574)
	195,249	146,680
FINANCING ACTIVITIES		
Increase (decrease) in bank debt	34,630	(184,868)
Repayment of convertible debenture <i>(Note 6)</i>	(55,667)	-
Issue of shares <i>(Note 8)</i>	600,138	140,507
Issue of 5.25% convertible debentures <i>(Note 6)</i>	-	200,000
5.25% convertible debenture issue costs <i>(Note 6)</i>	-	(8,381)
Cash dividends/distributions	(66,686)	(59,805)
Exercise of options <i>(Note 8)</i>	422	1,745
Share issue costs <i>(Note 8)</i>	(11,365)	(6,691)
Changes in non-cash working capital <i>(Note 10)</i>	-	175
	501,472	82,682
INVESTING ACTIVITIES		
Asset acquisition <i>(Note 4)</i>	(389,233)	-
Asset disposition <i>(Note 4)</i>	42,854	-
Plan of Arrangement <i>(Note 3)</i>	-	(7,633)
Capital expenditures	(366,318)	(190,025)
Changes in non-cash working capital <i>(Note 10)</i>	15,976	(31,704)
	(696,721)	(229,362)
CHANGE IN CASH	-	-
CASH, BEGINNING AND END OF PERIOD	-	-

See accompanying notes to the consolidated financial statements

PROGRESS ENERGY RESOURCES CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are in \$ thousands except for share and per share amounts)

1. ORGANIZATION AND STRUCTURE OF THE BUSINESS

Progress Energy Resources Corp. (“Progress” or the “Company”) is engaged in the exploration for, and the acquisition, development and production of, oil and natural gas reserves in the provinces of British Columbia and Alberta. Progress was incorporated on April 8, 2004 under the name ProEx Energy Ltd. (“ProEx”) and commenced commercial operations on July 2, 2004. On January 15, 2009, through the closing of a plan of arrangement (“the Arrangement”), ProEx acquired all of the issued and outstanding units of Progress Energy Trust (the “Trust”) and the exchangeable shares of the Trust’s subsidiary, Progress Energy Ltd. and changed its name to “Progress Energy Resources Corp.”. The Company currently has one wholly owned subsidiary and is a partner in a general partnership.

2. SIGNIFICANT ACCOUNTING POLICIES

Nature of Business and Basis of Presentation

The Company is involved in the exploration, development and production of petroleum and natural gas in British Columbia and Alberta. The consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”).

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary.

Joint Operations

Substantially all of the exploration, development and production activities are conducted jointly with others and accordingly, the Company only reflects its proportionate interest in such activities.

Use of Estimates

As the determination of many assets, liabilities, revenue and expenses is dependent upon future events, the preparation of these consolidated financial statements requires the use of estimates and assumptions, which have been made using careful judgment. In particular, the amounts recorded for depreciation and depletion of oil and natural gas properties and equipment, the provision for asset retirement obligations, the provision for income taxes, financial instruments and stock-based compensation are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, future oil and natural gas prices, future costs and other relevant assumptions. Goodwill impairment tests involve estimates of the Company’s fair value. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Cash and Short-Term Investments

Cash and short-term investments consist of cash in the bank, less outstanding cheques, and short-term deposits with a maturity of less than three months.

Petroleum and Natural Gas Properties

The Company uses the full cost method of accounting for petroleum and natural gas properties under which all costs related to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical costs, carrying charges of non-producing

properties, costs of drilling both productive and non-productive wells, the cost of petroleum and natural gas production equipment and overhead charges related to exploration and development activities.

In accordance with the full cost accounting guideline, the Company evaluates its oil and gas assets to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying value of the oil and gas assets. If the carrying value of the oil and gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved plus probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using the risk-free rate.

Proceeds from the disposition of petroleum and natural gas properties are applied against capitalized costs except for dispositions that would change the rate of depletion and depreciation by 20 percent or more, in which case a gain or loss would be recorded.

Depletion and Depreciation

Capitalized costs, together with estimated future capital costs associated with proved reserves, are depleted and depreciated using the unit-of-production method based on estimated proven reserves of petroleum and natural gas on a Company interest basis (working interest plus royalty interest) before the deduction of crown and other royalties as determined by independent engineers. For purposes of this calculation, reserves and production are converted to equivalent units of oil based on a relative energy content of six thousand cubic feet of gas to one barrel of oil. Costs of significant unproved properties, net of impairments, are excluded from the depletion and depreciation calculation.

Other assets, which are comprised of office equipment and furniture and fixtures, are recorded at cost and are depreciated over their useful life on a declining balance basis at 20 percent.

Asset Retirement Obligations

The Company records a liability for the fair value of future asset retirement obligations in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability there is a corresponding increase in the carrying amount of the related asset within property, plant and equipment, which is depleted on a unit-of-production basis over the life of the reserves. Estimates used are evaluated on a periodic basis and any adjustments are applied prospectively. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings. Actual costs incurred upon settlement of the obligations are charged against the liability. No gains or losses on retirement activities were realized due to settlements approximating the estimates.

Goodwill

Goodwill is recognized on corporate acquisitions when the total purchase price exceeds the fair value of the net identifiable assets of the acquired company. Goodwill is tested for impairment on an annual basis in the fourth quarter. If indications of impairment are present, a loss would be charged to earnings for the amount that the carrying value of goodwill exceeds its fair value.

Financial Instruments

The Company uses derivative financial instruments from time to time to hedge its exposure to commodity price and foreign exchange fluctuations. The Company may enter into crude oil and natural gas swap contracts, options or collars to hedge its exposure to petroleum and natural gas commodity prices and may enter into foreign exchange forward contracts to hedge anticipated US dollar denominated petroleum and natural gas sales. The Company recognizes the fair value of the derivative financial instruments each reporting period. The derivative financial instruments are initiated within the guidelines of the Company's risk management policy and the Company does not enter into derivative financial instruments for trading or speculative purposes.

Revenue Recognition

Revenues from the sale of petroleum and natural gas are recorded when title passes to an external party.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Temporary differences arising from the differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. The benefit of any uncertain tax benefits, if any, are only recognized if it is probable that they would be realized.

Stock Based Compensation

The Company has established a stock based compensation plan (the “Plan”) comprised of a Stock Option Plan, as well as a Share Unit Plan which includes both restricted unit awards and performance unit awards (refer to note 8 for further details of the Plan). The Company uses the fair value method for valuing stock based compensation. Under this method, the compensation cost attributed to stock options, restricted unit awards and performance unit awards granted are measured at the fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the settlement of the stock options, restricted unit awards or performance unit awards, the consideration received together with the previously recognized value in contributed surplus is recorded as an increase to shareholders’ capital.

The Company has not incorporated an estimated forfeiture rate for grants under the Plan that will not vest, rather, the Company accounts for actual forfeitures as they occur.

Grants that were outstanding from the Trust and ProEx, which include performance units and units granted under the LTI Component as well as stock options of ProEx, will continue until their original vesting dates (refer to note 8).

Per Share Information

Per share information is calculated on the basis of the weighted average number of Company shares outstanding during the fiscal year. Diluted per share information includes the impact of the potential dilution that could occur if securities or other contracts to issue shares were exercised or converted to shares. Diluted per share information is calculated using the treasury stock method that assumes any proceeds received by the Company upon the exercise of in-the-money share options plus the unamortized share compensation cost would be used to buy back Company shares at the average market price for the period.

As a result of the Arrangement and in accordance with Emerging Issues Committee Abstract 10 – *Reverse Takeover Accounting*, the per share information for the year ended December 31, 2009 has been calculated using the number of common shares issued to Trust unitholders and exchangeable shareholders as the shares outstanding for the beginning of the period January 1, 2009.

Adoption of International Financial Reporting Standards

On January 1, 2011 International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) will become the generally accepted accounting principles in Canada. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by Progress for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010.

The transition from Canadian GAAP to IFRS is significant with differences affecting the financial position and results of operations. The balances most affected by this change will be property, plant and equipment, goodwill, depletion expense, share based payments, and asset retirement obligations.

Progress will release its first IFRS compliant interim financial statements for the first quarter of 2011.

3. PLAN OF ARRANGEMENT

On January 15, 2009 the Trust and ProEx completed the Arrangement whereby ProEx acquired all of the issued and outstanding units of the Trust and the exchangeable shares of the Trust’s subsidiary, Progress Energy Ltd. and changed its name to Progress Energy Resources Corp. The Trust unitholders received 0.8125 of a ProEx share for each trust unit held and the holders of exchangeable shares received 0.8125 of a ProEx share for each unit they

were entitled to by multiplying the exchangeable shares held by the exchange ratio on January 15, 2009 of 1.62092.

Upon completion of the Arrangement, the Trust was liquidated and dissolved and Progress received all of the assets and assumed all of the liabilities of the Trust.

As a result of the Arrangement, the former owners of the Trust owned approximately 61 percent of the Company and the former owners of ProEx owned approximately 39 percent. In accordance with GAAP, the Arrangement was accounted for as a reverse takeover, whereby the Trust was deemed to be the acquirer of ProEx. The consolidated financial statements for 2009 reflect the financial position, results of operations and cash flows of the Company as if the Company had always carried on the business formerly carried on by the Trust. The year ended December 31, 2009 reflect the results of operations and cash flows of the Trust and its subsidiaries for the period January 1 to January 14, 2009 and the results of operations and cash flows of the Company and its subsidiaries for the period January 15 to December 31, 2009.

The total consideration of the reverse takeover was approximately \$663.5 million based on the notional issuance of 73,479,481 Trust Units at \$9.26 per Trust Unit based on the weighted average trading price of the Trust for a period before and after the announcement date of November 17, 2008, adjusted for the effect of normal issue costs and including transaction and other costs of \$10.3 million. Using the purchase method of accounting, the net assets acquired and the consideration paid were as follows:

Net Assets at Assigned Values	
Current assets	35,565
Current liabilities	(54,359)
	(18,794)
Property, plant and equipment	967,078
Bank debt	(163,215)
Future income taxes	(114,698)
Asset retirement obligations	(6,827)
	663,544
Consideration	
Common shares issued	653,203
Transaction costs	7,633
ProEx options	2,708
	663,544

4. PROPERTY, PLANT AND EQUIPMENT

	2010	2009
Property, plant and equipment	3,501,152	2,785,401
Accumulated depletion and depreciation	(1,068,754)	(805,636)
Property, plant and equipment, net	2,432,398	1,979,765

The calculation of 2010 depletion and depreciation expense included an estimated \$683.9 million (2009 - \$318.7 million) for future development costs associated with proved undeveloped reserves and excluded \$74.4 million (2009 - \$49.2 million) for the estimated salvage value of production equipment and facilities and \$305.0 million (2009 - \$227.9 million) for the carrying value of unproven properties. Depletion and depreciation expense for the year ended December 31, 2010 was \$263.1 million (2009 - \$221.0 million).

The Company capitalized approximately \$3.2 million of geological and geophysical compensation costs associated with the exploration and development of capital assets during the year ended December 31, 2010 (2009 - \$2.7 million).

Asset Acquisition

On March 31, 2010, Progress acquired certain crude oil and natural gas assets for \$389.2 million, including transaction costs of \$2.1 million ("Asset Acquisition"). The full amount of the Asset Acquisition was recorded to property, plant and equipment (including unproved property value of \$83.4 million) and in addition, the Company recorded an asset retirement obligation on the acquired assets of \$5.3 million.

Asset Disposition

On June 30, 2010, Progress disposed of its central Alberta properties for \$42.9 million. As a result of the disposition, the Company reduced its asset retirement obligation by \$5.4 million.

Ceiling Test

The Company performed a ceiling test calculation at December 31, 2010 resulting in the undiscounted cash flows from proved reserves and the lower of cost and market of unproved properties exceeding the carrying value of oil and gas assets. The following table summarizes the future benchmark prices the Company used in the ceiling test. The prices reflect GLJ Petroleum Consultants January 1, 2011 price forecast, as used in the evaluation of the Company's December 31, 2010 reserve report.

	Natural Gas	Crude Oil	
	AECO Gas price (Cdn\$/mmbtu)	Edmonton Par	West Texas
		Price (Cdn\$/bbl)	Intermediate (Cdn\$/bbl) ⁽¹⁾
2011	4.16	86.22	89.76
2012	4.74	89.29	90.78
2013	5.31	90.92	91.80
2014	5.77	92.96	93.84
2015	6.22	96.19	97.07
2016-2020 ⁽²⁾	6.89	103.89	104.77
Thereafter ⁽³⁾	2%	2%	2%

(1) Future prices incorporated a US/Cdn exchange rate of 0.98.

(2) Prices shown are the average over the period.

(3) Percentage change of 2.0% represents the change in future prices each year after 2020 to the end of the reserve life.

5. BANK DEBT

	2010	2009
Direct advances	37,508	17,878
Banker's acceptances	275,000	260,000
Total bank debt	312,508	277,878

The Company has extendible revolving term credit facilities in the amount of \$650 million from a syndicate of lenders. The borrowing base under the facilities is currently \$650 million and is subject to periodic re-determination by the lenders, the next renewal to occur on March 30, 2011. If renewed on March 30, 2011 the facilities will be available on a revolving basis until March 29, 2012, subject to extension at the lenders' discretion for successive 364 day periods. If an extension is not provided, the facilities will be available on a non-revolving basis for the following year and all amounts outstanding thereunder must be repaid in full at the end of such year. The facilities bear interest at a rate based on bankers acceptance rates (or LIBOR, for US dollar borrowings) plus a specified margin, which margin varies based on the Company's debt to cash flow ratio. The facilities contain customary restrictions on the incurrence of additional indebtedness, the disposition of assets and the granting of security. The facilities also contain customary events of default, including if a change of control has occurred in respect of the Company, which could occur: (a) if a person or persons acting jointly or in concert, acquired more than 30 percent of the outstanding voting securities of the Company; or (b) if 50 percent or more of the consolidated reserves of the Company and its subsidiaries were sold or otherwise disposed of to another person. The Company is restricted from making distributions (including the declaration of dividends) if it is in default under the facilities (or a default would reasonably be expected to occur as a result of such distribution) or if its outstanding borrowings exceed its borrowing threshold. As with previous credit facilities, the amount of the

facilities is subject to a borrowing base review performed on a periodic basis by the lenders, based primarily on reserves and using commodity prices estimated by the lenders, as well as other factors. A decrease in the borrowing base could result in a reduction to the credit facilities which may require a repayment to the lenders over the following 12 month period. The last borrowing base review was performed in October 2010 using the Company's reserves and updated prices determined by the lenders. As a result, there was no change to the current credit facilities. The facilities are secured by a \$1.5 billion fixed and floating charge debenture on the assets of the Company. The renewal is scheduled for March 30, 2011 and the next semi-annual borrowing base review will be in September 2011.

6. CONVERTIBLE DEBENTURES

As at December 31, 2010 Progress had the following convertible unsecured subordinated debentures (the "Debentures") outstanding. Each Debenture may be converted into common shares at the option of the holder at the applicable conversion price per common share noted below. The Company may elect to satisfy the interest and principal obligations by the issuance of common shares.

Debenture	Principal	Semi Annual Interest Payments	Conversion Price (\$/share)	Maturity Date
5.25%	200,000	April 30 and October 31	\$18.00	October 31, 2014
6.25%	75,000	March 31 and September 30	\$24.00	September 30, 2011

On June 30, 2010, the outstanding 6.75 percent debentures of \$55.7 million, matured and were settled in cash.

After October 31, 2012, the Company may redeem the 5.25 percent debentures in whole or in part provided the common shares weighted average trading price during a specified period prior to redemption is at least 125 percent of the conversion price. The Company may satisfy the payment of principal or interest in common shares under certain circumstances.

The 6.25 percent debentures and the 5.25 percent debentures have been classified as debt, net of issue costs and net of the fair value of the conversion feature at the date of issue which has been classified as part of shareholders' equity. The issue costs will be amortized over the term of the Debentures and the debt portion will accrete up to the principal balance at maturity. The accretion, amortization of issue costs and the interest paid are expensed within interest and financing expense on the consolidated statements of loss. The fair value of the conversion feature was determined at the time of issue as the difference between the principal value of the debentures and the discounted cash flows assuming an eight percent rate for the 6.25 percent debentures and a rate of 8.3 percent for the 5.25 percent debentures, which were the estimated rates for debt with similar terms at the time. If the Debentures are converted to shares, a portion of the value of the conversion feature under shareholders' equity will be reclassified to shareholders' capital along with the conversion price paid.

Debentures	2010				2009			
	6.75%	6.25%	5.25%	Total	6.75%	6.25%	5.25%	Total
Principal, beginning of year	55,667	75,000	200,000	330,667	55,667	75,000	-	130,667
Issued	-	-	-	-	-	-	200,000	200,000
Repayment	(55,667)	-	-	(55,667)	-	-	-	-
Principal, end of year	-	75,000	200,000	275,000	55,667	75,000	200,000	330,667
Debt portion, beginning of year	55,180	72,132	169,441	296,753	54,196	70,512	-	124,708
Issued	-	-	-	-	-	-	168,308	168,308
Accretion	257	985	4,435	5,677	518	971	826	2,315
Amortization of issue costs	230	650	1,670	2,550	466	649	307	1,422
Repayment	(55,667)	-	-	(55,667)	-	-	-	-
Debt portion, end of year	-	73,767	175,546	249,313	55,180	72,132	169,441	296,753
Equity portion, beginning of year	2,753	4,946	23,311	31,010	2,753	4,946	-	7,699
Issued	-	-	-	-	-	-	23,311	23,311
Expired	(2,753)	-	-	(2,753)	-	-	-	-
Equity portion, end of year	-	4,946	23,311	28,257	2,753	4,946	23,311	31,010

Total interest charged to earnings for the year ended December 31, 2010 was \$25.3 million (2009 - \$14.2 million) which included \$5.7 million of debenture accretion (2009 - \$2.3 million) and \$2.6 million of amortized issue costs (2009 - \$1.4 million).

7. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations were estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows required to settle the asset retirement obligations is approximately \$175.1 million which will be incurred over the next 40 years with the majority of costs incurred between 2018 and 2038. A credit adjusted risk-free rate of eight to nine percent and an inflation rate of two percent were used to calculate the fair value of the asset retirement obligations. The following reconciles the Company's asset retirement obligations:

	2010	2009
Balance, beginning of year	39,423	29,412
Liabilities incurred	2,268	3,798
Liabilities acquired (Note 4)	5,298	-
Liabilities settled	(2,500)	(3,490)
Liabilities disposed (Note 4)	(5,375)	-
Plan of Arrangement (Note 3)	-	6,827
Accretion expense	3,183	2,876
Balance, end of year	42,297	39,423

8. SHAREHOLDERS' EQUITY

An unlimited number of voting common shares may be authorized and issued. Each common share is transferable, carries the right to one vote and represents an equal undivided beneficial interest in any dividends from the Company and in the assets in the event of termination or winding-up of the Company. All common shares are of the same class with equal rights and privileges.

Shareholders' Capital

a) Common Shares of Progress Energy Resources Corp.

	2010		2009	
	Number	Amount	Number	Amount
Common Shares				
Balance, beginning of year	165,283,517	1,944,738	-	-
Issued for Trust units (Note 3)	-	-	81,107,815	1,019,417
Issued for Exchangeable Shares (Note 3)	-	-	10,664,982	122,752
Issued for ProEx shares (Note 3)	-	-	59,702,078	653,203
Share based compensation	600,115	9,582	504,062	10,518
Issued on exercise of options	38,334	422	248,666	1,745
Dividend reinvestment program	1,324,601	15,256	105,914	1,436
Issued for cash	47,630,000	600,138	12,950,000	140,507
Share issue costs (net of tax of \$3,036 and \$1,851, respectively)		(8,329)		(4,840)
Balance, end of year	214,876,567	2,561,807	165,283,517	1,944,738

b) Trust Units of Progress Energy Trust

	2010		2009	
	Number	Amount	Number	Amount
Trust Units				
Balance, beginning of year	-	-	99,819,172	1,019,361
Exchangeable shares converted	-	-	5,831	56
Exchanged for common shares (<i>Note 3</i>)	-	-	(99,825,003)	(1,019,417)
Balance, end of year	-	-	-	-

Upon completion of the Arrangement on January 15, 2009, the existing Trust unitholders received 0.8125 of a common share for each trust unit held and the holders of exchangeable shares received 0.8125 of a common share for each unit they were entitled to by multiplying the exchangeable shares held by the exchange ratio on January 15, 2009 of 1.62092.

On February 18, 2009, Progress issued 12,950,000 common shares at a price of \$10.85 per share for aggregate gross proceeds of \$140.5 million (\$133.8 million, net of issue costs of approximately \$6.7 million).

On March 2, 2010, Progress issued 47,630,000 subscription receipts at a price of \$12.60 per subscription receipt for total gross proceeds of \$600.1 million (\$588.8 net of issue costs). The financing was comprised of a \$350 million subscription receipt private placement with the Canada Pension Plan Investment Board ("CPPIB") and a concurrent \$250 million subscription receipt bought deal financing through a syndicate of underwriters. Each private placement subscription receipt and public subscription receipt represented the right to receive one common share of Progress, without the payment of any additional consideration, subject to the closing of the Asset Acquisition which occurred on March 31, 2010.

For the year ended December 31, 2010, the Company issued 1,324,601 common shares in payment of \$15.3 million of dividends for shareholders that elected to participate in the dividend reinvestment program ("DRIP"). The number of shares issued is based on 95 percent of the average market price being the weighted average trading prices of the shares for the five consecutive trading days before the dividend payment date. Subsequent to December 31, 2010, on January 17, 2011 the Company issued 516,775 common shares under the DRIP.

Management of Capital Structure

Progress' objectives when managing capital has not changed as a result of the Arrangement and the subsequent restructuring from a trust to a corporation. The objectives remain (i) to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk; and (ii) to manage capital in a manner which balances the interests of equity and debt holders.

In the management of capital, Progress includes share capital and total debt, which is made up of bank debt, the Debentures and working capital (excluding the fair value of financial instruments and the related future income tax liability). Progress manages the capital structure and makes adjustments in light of current economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Progress may issue new common shares, issue new debt, issue new debt to replace existing debt with different characteristics, adjust exploration and development capital expenditures, and acquire or dispose of assets. During the first quarter of 2010, Progress issued 47,630,000 common shares at a price of \$12.60 per share in relations to the Asset Acquisition and to maintain its flexible capital structure.

The key measures that the Company utilizes in evaluating its capital structure are total debt to cash flow from operating activities (before changes in non-cash working capital) and the current credit available from its creditors in relation to the Company's budgeted capital program. Total debt to cash flow from operating activities (before changes in non-cash working capital) is calculated as total debt divided by cash flow from operating activities (before changes in non-cash working capital) and represents the time period it would take to pay off the debt if no

further capital expenditures were incurred and if cash flow from operating activities (before changes in non-cash working capital) stayed constant. At December 31, 2010 total debt was \$581.9 million and cash flow from operating activities (before changes in non-cash working capital) for the year ended December 31, 2010 was \$204.3 million, resulting in a total debt to cash flow from operating activities (before changes in non-cash working capital) ratio of 2.8. This ratio is acceptable to the Company in light of the natural gas price environment during the year.

Net Loss per Share

The following table summarizes the weighted average shares used in calculating net loss per share:

	2010	2009
Weighted average shares – basic and diluted ⁽¹⁾	202,208,375	160,948,164

(1) Adjusted to reflect the common shares issued for Trust units and Exchangeable shares as if they were issued on January 1, 2009.

Shares potentially issuable on the exercise of outstanding stock options, vesting of performance units, restricted share units, and performance share units and on the conversion of the Debentures for the years ended December 31, 2010 and 2009 are anti-dilutive and are not included in the calculation of diluted weighted average shares.

Stock based compensation expenses

The Company has established a stock based compensation plan (“Plan”) comprised of a Stock Option Plan, as well as a Share Unit Plan which includes both restricted unit awards and performance unit awards. Unless otherwise approved by the shareholders, the Company may grant up to a maximum of 1,700,000 common shares pursuant to the Share Unit Plan. The restricted unit awards are whole share awards that entitle the holder to that number of shares at the end of the vesting period. Performance unit awards are similar to the restricted unit awards, however, a performance factor is applied to the grant on the vesting date. Both the restricted unit awards and performance unit awards vest at the end of a three year period and include accumulated dividends paid over the vesting period, however for new employees, their initial grant will vest 20 percent on the first anniversary date, 30 percent on the second anniversary and 50 percent on the third anniversary. Under the Stock Option Plan, unless otherwise approved by the shareholders, the Company may grant up to a maximum of 10,000,000 stock options. The stock options granted under the Stock Option Plan prior to 2011 vest one third in each of the second, third and fourth year anniversary dates from the date of grant. Stock options granted in 2011 vest one third in each of the first, second and third year anniversary dates from the date of grant. The options expire in five years from the date of grant.

Grants that were outstanding from the Trust and ProEx, which include performance units and units granted under the LTI Component as well as stock options of ProEx, will continue until their original vesting dates.

Stock options

As at December 31, 2010, there were 5,951,867 stock options outstanding. This includes stock options which were granted under the Plan and stock options that have continued from ProEx’s original stock option plan.

The following table summarizes the stock option activity for the year ended December 31, 2010.

	Number of options	Weighted average exercise price
Balance, beginning of year	5,872,533	11.93
Granted	281,000	12.39
Forfeited	(145,332)	12.39
Expired	(18,000)	15.46
Exercised	(38,334)	11.02
Balance, end of year	5,951,867	11.93

The following table summarizes stock options outstanding and exercisable at December 31, 2010.

Range of exercise price	Options outstanding			Options exercisable	
	Number outstanding at period end	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at period end	Weighted average exercise price
\$9.35 to \$11.69	4,547,000	3.19	11.36	-	-
\$12.00 to \$14.22	1,184,367	1.98	13.51	976,700	13.67
\$14.50 to \$16.50	220,500	1.46	15.31	193,833	15.25
	5,951,867	2.73	11.93	1,170,533	13.93

The Company accounts for its stock based compensation plan using the fair value method. Under this method, a compensation cost is charged over the vesting period for stock options granted to officers, directors and employees with a corresponding increase to contributed surplus.

The fair value of the options granted during the year were estimated on the date of grant using a Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

Assumptions	2010	2009
Risk free interest rate (%)	2.18	1.80
Expected life (years)	4.0	4.0
Expected volatility (%)	43.09	42.21
Expected dividend yield (%)	3.2	3.5
Weighted average fair value per option granted (\$)	3.48	3.00

Subsequent to year-end, an additional grant, under the existing Plan, was approved and 1,413,367 options at a price of \$12.36 were granted in January 2011 to officers and employees of the Company. Options granted have a term of five years until expiry and vest one third in each of the first, second and third year anniversary dates from the date of grant. The exercise price of each option equals the 5-day weighted average market price of the Company's common shares immediately preceding the date of grant.

Share units

The activity for the year ended December 31, 2010 relating to the Company's Share Unit Plan which includes both restricted unit awards and performance unit awards as described above, is as follows:

Restricted Unit Awards	2010	2009
Balance, beginning of year	93,259	-
Granted	88,265	93,259
Settled	(950)	-
Forfeited	(1,175)	-
Balance, end of year	179,399	93,259

Vesting Date		
2011	5,936	-
2012	87,973	93,259
2013	85,490	-
Total	179,399	93,259

Performance Unit Awards	2010	2009
Balance, beginning of year	259,950	-
Granted	281,050	259,950
Settled	(2,790)	-
Forfeited	(14,635)	-
Balance, end of year	523,575	259,950

Vesting Date		
2011	8,120	-
2012	251,217	259,950
2013	264,238	-
Total	523,575	259,950

Share Appreciation Rights (SARs)

ProEx had a Share Appreciation Rights (SARs) plan that allowed for the issuance of SARs to certain employees, which entitle the holder to receive a cash payment equal to the difference between the stated exercise price and the market price of common shares on the date of surrender. SARs vest equally over a three year period. The exercise price was based on the market price at the time of grant. At December 31, 2010, 65,000 (2009 – 85,000) SARs were outstanding at an average price of \$13.99. Compensation expense relating to the SARs for the year ended December 31, 2010 was nil (2009 – nil).

Long Term Incentive Component of the Trust

Awards granted under the LTI component will vest over three years with 40 percent vesting on the second anniversary of the date of grant and 60 percent vesting on the third anniversary of the date of grant. An additional 15 percent grant will be paid if the holder holds the common shares they receive on the second anniversary date for one additional year. For the year ended December 31, 2010, 104,348 common shares were issued to settle LTI amounts that vested. This includes the 15 percent grant that was paid to LTI holders that held the shares they received on the second anniversary date for one additional year. This resulted in an additional 18,189 common shares being issued by the Company. As at December 31, 2010 12,960 common shares remain outstanding under the LTI component. The total compensation cost of the LTI component was \$3.0 million of which \$2.8 million was recognized through stock based compensation expense and \$0.2 million was capitalized over the vesting period.

Performance Unit Incentive Plan

The outstanding performance units that had been granted by the Trust vest at the end of a three year performance period at which time they will be converted to common shares, or the cash equivalent, and include the accumulated distributions of the Trust and accumulated dividends of the Company over the three year period. For new employees hired their initial grant vests 20 percent on the first anniversary date, 30 percent on the second anniversary and 50 percent on the third anniversary. The actual number of common shares paid is dependent upon a performance factor that is determined based on the Company's performance relative to its peers and ranges from 0.5 to 1.5 times the initial grant, except for performance units granted to the Trust's executives effective July 2, 2007 and 2008 which can range from 0 to 3 times. Payment may be in the form of cash or common shares, at the Company's option. Management anticipates, at the end of the performance period, accumulated distributions and dividends will be paid in cash and common shares will be paid from treasury. Actual performance factors will not be determined until the end of the three year performance periods.

On January 15, 2009, 202,495 common shares were issued to settle the performance units that vested as part of the Arrangement at a performance factor of 1.5 times. As a result \$3.4 million was transferred from contributed surplus to shareholders' capital.

On June 19, 2009, 247,685 common shares were issued to settle the performance units vesting on July 2, 2009, resulting in \$5.1 million being transferred from contributed surplus to shareholders' capital.

On July 2, 2010 485,590 common shares were issued to settle the performance units granted in 2007 that vested at a performance factor of 1.5 times. As a result \$7.6 million was transferred from contributed surplus to shareholders' capital.

As at December 31, 2010, there are 381,385 performance units outstanding vesting on July 2, 2011, the amounts of which have been adjusted by 0.8125 of a common share for each Trust unit as specified in the Arrangement. The stock based compensation expense is calculated using the current estimated performance factor for each performance unit grant based on the Company's operating performance. Actual performance factors will not be determined until the end of the performance period.

For the year ended December 31, 2010, \$11.1 million was charged to stock based compensation expense (2009 – \$11.6 million) and \$0.6 million was capitalized (2009 – \$0.7 million) relating to the total performance units, stock options and shares under the LTI component outstanding.

Performance Units of the Trust⁽¹⁾	2010	2009
Balance, beginning of year	717,718	1,087,247
Granted	-	-
Performance factor adjustment ⁽²⁾	167,639	144,543
Settled ⁽²⁾	(492,027)	(450,180)
Forfeited	(11,945)	(63,892)
Balance, end of year	381,385	717,718

Vesting Date		
2010	-	319,373
2011 ⁽³⁾	381,385	398,345
Total	381,385	717,718

- (1) All amounts have been adjusted to reflect the ratio of 0.8125 of a common share for each trust unit as specified in the Arrangement.
- (2) For both 2010 and 2009, the performance units were settled at a performance factor of 1.5 times resulting in the issuance of an additional 167,639 common shares and 144,543 common shares, respectively.
- (3) Using the current anticipated performance factor of 1.5 times, 196,219 additional common shares will be issued on the vesting of the performance units granted in 2008.

Units under LTI Component⁽¹⁾	2010	2009
Balance, beginning of year	100,956	161,284
Additional grant ⁽²⁾	18,189	-
Settled	(104,348)	(53,719)
Forfeited	(1,837)	(6,609)
Balance, end of year	12,960	100,956

Vesting Date		
2010	-	86,993
2011	12,960	13,963
Total ²	12,960	100,956

- (1) All amounts have been adjusted to reflect the ratio of 0.8125 of a common share for each trust unit as specified in the Arrangement.
- (2) An additional 15 percent grant, resulting in the issuance of 18,189 common shares, was paid to LTI holders that held the shares they received on the second anniversary date for one additional year. For the remaining units under the LTI this could result in an additional 3,533 common shares being issued by the Company.

The following table reconciles the Company's contributed surplus:

	2010	2009
Balance, beginning of year	17,035	12,959
Stock based compensation expense	11,058	11,234
Stock based compensation capitalized	596	652
Convertible debentures – equity portion (<i>Note 6</i>)	2,753	-
ProEx options assumed on the Arrangement (<i>Note 3</i>)	-	2,708
Settlements	(9,582)	(10,518)
Balance, end of year	21,860	17,035

9. INCOME TAXES

The provision for income taxes in the consolidated statements of loss reflect an effective tax rate which differs from the expected statutory tax rate. Differences were accounted for as follows:

	2010	2009
Loss before taxes	(76,656)	(98,485)
Statutory income tax rate	28.2%	29.3%
Expected income taxes	(21,617)	(28,856)
Add (deduct)		
Stock based compensation	3,120	3,292
Reduction in income tax rates and certain tax balances	2,810	3,565
Revaluation of prior provisions	-	(6,521)
Expiration of capital losses	-	1,840
Other	1,469	756
	(14,218)	(25,924)

The future income taxes liability at December 31 is comprised of the tax effect of temporary differences as follows:

	2010	2009
Property, plant and equipment	165,650	137,654
Asset retirement obligations	(10,574)	(9,856)
Non capital losses	(104,189)	(60,182)
Fair value of financial instruments	1,111	712
Share issue costs	(5,154)	(4,418)
Attributed Canadian Royalty Income	(5,186)	(5,263)
	41,658	58,647

As at December 31, 2010 the Company has estimated federal tax pools of \$2.2 billion (2009 - \$1.7 billion) available for deduction against future taxable income. Non-capital losses are scheduled to expire in the years 2023 through 2030.

10. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

	2010	2009
Accounts receivable	(23,157)	27,525
Prepaid expenses and deposits	3,867	2,440
Accounts payable	26,232	(63,205)
Current income taxes payable	-	(4,863)
Change in non-cash working capital	6,942	(38,103)
Relating to:		
Investing activities	15,976	(31,704)
Financing activities	-	175
Operating activities	(9,034)	(6,574)

Interest and taxes paid

	2010	2009
Interest paid	8,453	4,289
Income and other taxes paid	-	-

11. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The Company's financial instruments recognized on the balance sheet consist of accounts receivable, investments, accounts payable and accrued liabilities, dividends payable, bank debt, convertible debentures and derivative natural gas and foreign exchange contracts ("financial instruments"). The fair value of these instruments, excluding the investments, convertible debentures and the derivative natural gas and foreign exchange contracts, approximate their carrying amounts due to their short terms to maturity or the indexed rate of interest on the bank debt. The fair value of the convertible debentures outstanding as at December 31, 2010 was approximately \$278.7 million (2009 - \$335.3 million).

In light of the current economic conditions, the Company continues to monitor its accounts receivable and its allowance for doubtful accounts. As at December 31, 2010 there have been no impairment issues. The Company has an allowance for doubtful accounts of approximately \$0.9 million.

Investments include 8,300,000 Class A common shares of Seaview Energy Inc. ("Seaview") and 448,578 shares of Crocotta Energy Inc. ("Crocotta"). Both investments have been classified as held for trading and are measured at fair value each reporting period. Based on Seaview's closing trading price on December 31, 2010 of \$1.19 per share, an unrealized gain of \$0.8 million was recognized for the year ended December 31, 2010 (2009 - \$0.8 million gain) on the revaluation of the shares to \$9.9 million at December 31, 2010 (2009 - \$9.1 million). The fair value of the investment in Crocotta, based on the closing trading price on December 31, 2010 of \$1.77 per share, was \$0.8 million (2009 - \$0.5 million), resulting in an unrealized gain of \$0.3 million for the year ended December 31, 2010 (2009 - \$0.1 million gain).

All of Progress' cash and cash equivalents, derivative natural gas contracts, and investments are transacted in active markets. Progress classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Progress' cash and cash equivalents, derivative natural gas contracts, and investments have been assessed on the fair value hierarchy described above. The cash and cash equivalents, and investments are classified as Level 1 as they are traded on the Toronto Stock Exchange. The natural gas contracts are classified as Level 2. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

Credit risk

The Company's accounts receivable are with customers and joint venture partners in the petroleum and natural gas business and are subject to normal credit risks. Concentration of credit risk is mitigated by marketing production to numerous purchasers under normal industry sale and payment terms. The Company routinely assesses the financial strength of its customers.

The Company may be exposed to certain losses in the event of non-performance by counterparties to commodity price contracts. The Company mitigates this risk by entering into transactions with highly rated major financial institutions.

At December 31, 2010, financial assets on the balance sheet are comprised of accounts receivables, held for trading investments and natural gas derivative contracts.

The maximum credit exposure at December 31, 2010 is the carrying amount of accounts receivable and natural gas derivative contracts of \$68.2 million combined. As is common in the petroleum and natural gas industry in western Canada, receivables relating to the sale of petroleum and natural gas are received on or about the 25th day of the following month. The Company markets its production to customers with investment grade credit ratings, if available in the area of production, or seeks parental guarantees and letters of credit. Of the \$64.2 million accounts receivable outstanding, \$34.9 related to the sale of petroleum and natural gas and was received January 25, 2011. The accounts receivable balance includes \$24.8 million from joint venture partners relating to the recovery of their interest in operating costs and capital spent. The largest amount owing from one partner was \$7.5 million. As the operator of properties, Progress has the ability to not allocate production to joint venture partners who are in default of amounts owing. At December 31, 2010 the allowance for doubtful accounts was \$0.9 million.

Currency risk

The Company does not sell or transact in any foreign currency, however, the United States ("US") dollar influences the price of petroleum and natural gas sold in Canada. Price fluctuations, as a result, can affect the fair value and future cash flows of derivative natural gas contracts, however, given it is an indirect influence, the impact of changing exchange rates cannot be quantified. The Company has derivative natural gas contracts outstanding at December 31, 2010 based on both Canadian and US natural gas market indices. The "basis hedges" outlined in the table below are the only instruments the Company had that are directly affected by changes in the US/Canadian exchange rate. A \$0.05 increase or decrease in the US/Canadian exchange rate would have resulted in a change of less than \$0.1 million to 2010 net earnings as a result of the change in fair value of the instruments net of future income taxes based on the terms of the instruments below. The Company's other financial assets and liabilities are not directly affected by a change in currency rates.

Interest rate risk

The Company is exposed to interest rate risk on its outstanding bank debt and Debentures. The bank debt has a floating interest rate and consequently changes to interest rates would impact the Company's future cash flows. The Company had no interest rate swaps or hedges at December 31, 2010. Changes in market interest rates will result in fluctuations to the fair value of the Debenture's given their fixed interest rates. An increase or decrease of one percent to the effective interest rate for the Company, given average bank debt for the year of approximately \$249.9 million, would have impacted 2010 net earnings by \$2.5 million.

Liquidity risk

Liquidity risk relates to the risk the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The financial liabilities on its balance sheet consist of accounts payable, bank debt and the Debentures. As described in note 5, the credit facilities are available on a revolving basis for a period of at least 364 days until March 30, 2011 when it is subject to renewal, and such initial term out date may be extended for further 364 day periods at the request of the Company, subject to approval by the banks. Following the term out date, the facilities will be available on a non-revolving basis for a one year term, at which time the facilities would be due and payable. The Debentures mature in September 2011, and October 2014. The Company anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future cash flows (see also "Management of Capital Structure" in note 8). The Company had no defaults or breaches on its bank debt or any of its financial liabilities.

Market risk

Market risk is comprised of currency risk, interest rate risk and other price risks which consist primarily of fluctuations in petroleum and natural gas prices. The valuation of the financial assets and liabilities on the balance sheet at December 31, 2010 would not be directly impacted by changes in currency rates. Currency rates influence petroleum and natural gas prices, however this influence on commodity prices and the resulting impact on financial assets and liabilities cannot be accurately quantified. In regards to commodity prices, the financial instruments directly affected by changes in commodity prices are the derivative natural gas contracts listed below. Assuming a \$0.25 change to the price per thousand cubic feet of natural gas, the fair value change in the natural gas contracts would have impacted 2010 net earnings by approximately \$3.7 million based on the volumes and remaining terms of the contracts as at December 31, 2010 outlined below. The Company's financial instruments are not directly impacted by changes in crude oil prices. The results of the sensitivity should not be considered to be predictive of future performance. Changes in the fair value of the derivative natural gas contracts cannot generally be extrapolated because the relationship of change in certain variables to a change in fair value may not be linear.

Commodity Price Contracts

The Company has entered into several financial instruments for the purpose of protecting its cash flow from operations before changes in non-cash working capital. For the year ended December 31, 2010, the Company's risk management program had a net realized gain of \$16.1 million (2009 - \$18.4 million gain).

At December 31, 2010 the fair value was an asset of \$3.9 million (2009 - \$2.8 million asset), resulting in an unrealized gain of \$1.1 million for the year ended December 31, 2010 (2009 - \$11.7 million unrealized loss).

Contracts outstanding in respect to financial instruments are as follows:

Natural gas

Contracts	Volume	Pricing Point	Differential	Term
Swap – basis hedge ⁽¹⁾	10,000 mmbtu/d	Nymex	(\$0.55)	Jan 01/11 to Dec 31/11
Swap – basis hedge ⁽¹⁾	10,000 mmbtu/d	Nymex	(\$0.53)	Jan 01/11 to Dec 31/11
Swap – basis hedge ⁽¹⁾	10,000 mmbtu/d	Nymex	(\$0.49)	Jan 01/11 to Dec 31/11
Swap – basis hedge ⁽¹⁾	10,000 mmbtu/d	Nymex	(\$0.47)	Jan 01/11 to Dec 31/11

Contracts	Volume	Pricing Point	Strike Price \$/gj	Premium \$/gj	Term
Swap – call spread	5,000 gj/d	AECO	\$3.60-\$4.60	\$0.26	Feb 01/11 to Oct 31/11
Swap – call spread	5,000 gj/d	AECO	\$3.65-\$4.65	\$0.26	Feb 01/11 to Oct 31/11
Swap – call spread ⁽²⁾	5,000 gj/d	AECO	\$3.81-\$4.81	\$0.26	Feb 01/11 to Oct 31/11

Contracts	Volume	Pricing Point	Strike Price \$/gj	Premium \$/gj	Term
Bought put option	25,000 gj/d	AECO	\$6.43	\$1.080	Nov 01/10 to Mar 31/11
Bought put option	5,000 gj/d	AECO	\$3.61	\$0.340	Feb 01/11 to Oct 31/11
Bought put option	5,000 gj/d	AECO	\$3.65	\$0.335	Feb 01/11 to Oct 31/11
Bought put option ⁽²⁾	5,000 gj/d	AECO	\$3.83	\$0.357	Feb 01/11 to Oct 31/11

Contracts	Volume	Pricing Point	Strike Price \$/gj	Term
Sold calls	10,000 gj/d	AECO	\$7.575	Jan 1/11 to Dec 31/11
Sold calls	10,000 gj/d	AECO	\$7.500	Jan 1/11 to Dec 31/11

(1) These contracts were settled subsequent to year-end for net proceeds of \$1.2 million.

(2) Entered into subsequent to December 31, 2010.

12. COMMITMENTS

The Company is committed to future minimum payments for the Debentures, natural gas transportation contracts, drilling rig agreements, compressor rentals, and office space. The Company's extendible term credit facilities are available on a revolving basis until March 30, 2011. This initial term out date may be extended for a further 364 day period at the request of the Company, subject to approval by the banks. Following the term out date, the facilities will be available on a non-revolving basis for a 364 day period. Without assuming the renewal of the credit facilities payments required under these commitments for each of the next five years are: 2011 - \$134.7 million; 2012 - \$334.0 million; 2013 - \$11.5 million; 2014 - \$208.8 million; and 2015 - \$5.1 million. Future commitments related to bank debt and the Debentures are disclosed in notes 5 and 6, respectively.

13. SUBSEQUENT EVENT

On February 14, 2011 Progress announced that it will be issuing \$200.0 million principal amount of 5.75 percent convertible unsecured subordinated debentures (the "5.75 percent debentures") and issuing 14,400,000 common shares at a price of \$13.90 per share for proceeds of \$200.2 million. Together the offering will result in gross proceeds of \$400.2 million.

Pursuant to its existing subscription right, Canada Pension Plan Investment Board ("CPPIB") has agreed to subscribe for 2,116,800 common shares of Progress at a price of \$13.90 per share, for gross proceeds of \$29.4 million, which is included in the aggregate proceeds of the offering. The closing of the offering and CPPIB subscription are contingent upon one another.

Interest on the 5.75 percent debentures is payable in equal instalments semi-annually in arrears on June 30 and December 31 in each year commencing June 30, 2011. The 5.75 percent debentures will mature on June 30, 2016. Each debenture may be converted into common shares at the option of the holder at a conversion price of \$20.85 per common share. After July 1, 2014, the Company may redeem the 5.75 percent debentures in whole or in part provided the common shares weighted average trading price during a specified period prior to redemption is at least 125 percent of the conversion price. The Company may satisfy the payment of principal or interest in common shares under certain circumstances. The issue is expected to close on or about March 7, 2011.

2010 SELECTED QUARTERLY INFORMATION

FINANCIAL HIGHLIGHTS

(unaudited)

(\$ thousands except per share amounts)

	Three Months Ended 2010				Annual
	March 31	June 30	Sept. 30	Dec. 31	2010
Income Statement					
Petroleum and natural gas revenue	113,471	115,859	105,305	107,957	442,592
Cash flow ⁽¹⁾	48,701	51,240	44,929	59,413	204,283
Per share – diluted	0.29	0.24	0.21	0.27	1.01
Cash dividends declared ⁽²⁾	21,301	21,333	22,779	21,488	86,901
Per share	0.10	0.10	0.10	0.10	0.40
Net earnings	764	(23,288)	(18,423)	(21,491)	(62,438)
Per share – basic and diluted	-	(0.11)	(0.09)	(0.10)	(0.31)
Balance Sheet					
Exploration and development capital	124,142	38,231	108,792	103,814	374,979
Net property acquisitions (dispositions)	(3,369)	(1,589)	(577)	(3,126)	(8,661)
Total capital expenditures	120,773	36,642	108,215	100,688	366,318
Asset Acquisition ⁽³⁾	389,609	(376)	-	-	389,233
Asset Disposition ⁽⁴⁾	-	(42,854)	-	-	(42,854)
Working capital deficiency (surplus)	42,506	18,087	58,243	20,105	20,105
Bank debt	139,074	178,384	218,133	312,508	312,508
Convertible debentures	298,902	245,405	247,355	249,313	249,313
Total debt	480,482	441,876	523,731	581,926	581,926
Shareholders' capital	2,290,806	2,252,545	2,555,579	2,561,807	2,561,807
Common Shares (thousands except where otherwise stated)					
Shares outstanding, end of period	213,014	213,330	214,296	214,877	214,877
Weighted average shares - basic	165,896	213,259	214,222	214,787	202,208
Weighted average shares - diluted	166,763	214,004	214,735	215,430	202,924
Common Share Trading Statistics (\$)					
High	14.70	12.97	12.95	13.15	14.70
Low	11.25	10.67	10.86	10.30	10.30
Closing	11.77	12.37	11.67	12.70	12.70
Share volume traded (thousands)	49,171	58,964	42,396	41,164	232,865

⁽¹⁾ Cash flow represents the cash flow from operations before changes in non-cash working capital, which as presented does not have any standardized meaning prescribed by Canadian GAAP and therefore it may not be comparable with the calculation of similar measures for other entities.

⁽²⁾ The dividends declared in the third quarter of 2010 include \$1.4 million of accumulated distributions and dividends paid on performance units that vested during the period.

⁽³⁾ Foothills asset acquisition on March 31, 2010.

⁽⁴⁾ West Central Alberta asset disposition on June 30, 2010.

2010 SELECTED QUARTERLY INFORMATION

Operational Highlights (unaudited)	Three Months Ended 2010				Annual
	March 31	June 30	Sept. 30	Dec. 31	2010
Daily Production					
Natural gas (mcf/d)	178,993	226,898	222,540	225,594	213,659
Crude oil (bbls/d)	1,812	2,014	1,872	2,127	1,957
Natural gas liquids (bbls/d)	3,426	3,690	3,373	2,974	3,365
Total daily production (boe/d)	35,070	43,520	42,335	42,700	40,932
Average Realized Prices					
Natural gas (\$/mcf)	5.27	4.03	3.78	3.68	4.13
Crude oil (\$/bbl)	75.33	72.97	69.79	74.79	73.24
Natural gas liquids (\$/bbl)	52.68	56.40	51.35	60.48	55.10
Highlights (\$/boe)					
Weighted average sales price ⁽¹⁾	35.95	29.25	27.04	27.48	29.62
Realized gain (loss) on financial instruments	(0.28)	0.97	1.47	1.88	1.08
Royalties	(6.30)	(4.27)	(4.12)	(3.93)	(4.57)
Operating expenses	(6.12)	(6.45)	(6.11)	(5.65)	(6.08)
Transportation expenses	(3.02)	(3.24)	(3.24)	(3.22)	(3.19)
Operating Netbacks	20.23	16.26	15.04	16.56	16.86
General and administrative expense	(1.13)	(1.02)	(0.93)	(0.77)	(0.95)
Stock based compensation expense	(0.87)	(0.85)	(0.62)	(0.63)	(0.74)
Interest and financing expenses	(3.70)	(2.51)	(2.13)	(2.33)	(2.62)
Unrealized gain/(loss) on financial instruments	4.61	(2.00)	0.29	(1.71)	0.07
Unrealized gain/(loss) on investments	(0.50)	0.38	0.18	0.11	0.07
Depletion, depreciation and accretion expense	(17.79)	(17.80)	(17.83)	(17.88)	(17.82)
Net earnings before taxes	0.85	(7.54)	(6.00)	(6.65)	(5.13)
Future income taxes recovery	(0.62)	1.65	1.27	1.18	0.95
Net Earnings	0.23	(5.89)	(4.73)	(5.47)	(4.18)
Drilling Results (# of Wells)					
Gross	29	3	25	20	77
Net	25.7	2.7	20.2	17.7	66.3
Success Rate (percent)	100%	100%	100%	100%	100%

⁽¹⁾ Includes sulphur net revenue with no associated production as no conversion exists for tons to boe.

CORPORATE INFORMATION OF PROGRESS ENERGY RESOURCES CORP.

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Calgary, Alberta

John A. Brussa ⁽³⁾⁽⁴⁾
Partner
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Calgary, Alberta

Michael R. Culbert
President and CEO
Progress Energy Resources Corp.
Calgary, Alberta

R. Scott Lawrence ⁽¹⁾
Vice President – Head of Relationship
Investments, Public Market Investments
Canadian Pension Plan Investment Board
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Senior Vice President and
Managing Director
BMO Nesbitt Burns
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Terrance D. Svarich ⁽²⁾⁽⁴⁾
President
Devsun Ltd.
Calgary, Alberta

⁽¹⁾ Member of Audit Committee
⁽²⁾ Member of Reserve Committee

⁽³⁾ Member of Compensation
Committee

⁽⁴⁾ Member of Corporate Governance and Nominating
Committee

Environment, Health and Safety matters are addressed by
the entire Board of Directors

OFFICERS

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Chairman

Michael R. Culbert
President and CEO

Daniel C. Topolinsky
Executive Vice President,
Exploration and Development

Greg W. Kist
Vice President, Investor
Relations and Marketing

Art A. MacNichol
Vice President, Finance &
Chief Financial Officer

Gary A. Miller
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Cindy R. Rutherford
Vice President, Land

James L. Stannard
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Computershare Trust Company
of Canada
Calgary, Alberta

STOCK EXCHANGE

The Toronto Stock Exchange
trading symbols:
Common Shares- PRQ
6.25% Debentures – PRQ.DB.A
5.25% Debentures – PRQ.DB.B

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Calgary, Alberta

AUDITOR

KPMG LLP
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